IMPORTANT NOTICE

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN A FINAL OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of the Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at your request and, by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Circular to any other person.

The materials relating to any offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in electronic format. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Issuer, the Joint Lead Managers (each as defined in the Offering Circular) nor any person who controls the Issuer, a Joint Lead Manager or any director, officer, employee or agent of any of the Issuer, the Joint Lead Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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SMC GLOBAL POWER

A SUBSIDIARY OF SAN MIGUEL CORPORATION

(incorporated with limited liability in the Republic of the Philippines)

U.S.$400,000,000 Senior Perpetual Capital Securities

Issue Price: 100.00%

The U.S.$400,000,000 senior perpetual capital securities (the "**Securities**") are issued by SMC Global Power Holdings Corp. ("**SMC Global Power**", the "**Issuer**" or the "**Company**").

The Securities confer a right to receive distributions (each, a "**Distribution**") at the applicable rate described below for the period from and including October 21, 2020 or from and including the most recent Distribution Payment Date (as defined below) to, but excluding, the next Distribution Payment Date or any redemption date. Subject to Condition 4.5 (*Optional Deferral of Distributions*) of the terms and conditions of the Securities (the "**Conditions**"), Distributions are payable semi-annually in arrear on the Distribution Payment Dates in each year. "**Distribution Payment Dates**" are defined as April 21 and October 21 of each year, commencing on April 21, 2021. Unless previously redeemed in accordance with the Conditions and subject to Condition 4.4 (*Increase in Rate of Distribution*), Distributions (i) from and including October 21, 2020 to, but excluding, October 21, 2025 (the "**Step Up Date**") shall accrue on the outstanding principal amount of the Securities at 7.00% per annum (the "**Initial Rate of Distribution**") and (ii) from and including each Reset Date (as defined in the Conditions) (including the Step Up Date) to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at the relevant Reset Rate of Distribution (as defined in the Conditions).

The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days (as defined in the Conditions) prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date (i) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a *pro rata* basis) Parity Securities (each as defined in the Conditions) of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer or (ii) at the discretion of the Issuer, any Junior Securities or (except on a *pro rata* basis) Parity Securities have been redeemed, repurchased or otherwise acquired by the Issuer or any of its subsidiaries, other than a redemption, repurchase or other acquisition in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer. Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date (as defined in the Conditions). Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution (as defined in the Conditions) as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Securities are undated securities in respect of which there is no fixed redemption date. Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on the Step Up Date or any subsequent Distribution Payment Date falling after the Step Up Date at the Redemption Price (as defined in the Conditions), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). The Securities may also be redeemed (in whole but not in part) at the option of the Issuer at the Redemption Price upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined in the Conditions). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Issuer (A) upon the occurrence of a Change of Control Event (as defined in the Conditions) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined in the Conditions) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Indebtedness Default Event (as defined in the Conditions) at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (as defined in the Conditions) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price or (D) in the event that the aggregate principal amount of the Securities originally issued that remains outstanding is equal to or less than 25% (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

Investing in the Securities involves certain risks. See "Risk Factors" beginning on page 24.

THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE PHILIPPINE SECURITIES REGULATION CODE ("PHILIPPINE SRC"). ANY FUTURE OFFER OR SALE OF THE SECURITIES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE PHILIPPINE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE PHILIPPINE SRC.

The Securities are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Securities may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. For further details, see "*Subscription and Sale*."

Approval-in-principle has been obtained from the SGX-ST for the listing and quotation of the Securities on the SGX-ST.

The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Securities to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Securities or SMC Global Power or its subsidiaries. Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult their advisers.

The Securities will be evidenced by a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. Except in the limited circumstances set out herein, definitive certificates for the Securities will not be issued in exchange for beneficial interests in the Global Certificate. See "*The Global Certificate*." It is expected that delivery of the Global Certificate will be made on or about October 21, 2020.

Joint Lead Managers

(in alphabetical order)

BofA Securities **Credit Suisse** **DBS Bank Ltd.** **Deutsche Bank** **HSBC** **Mizuho Securities** **Standard Chartered Bank** **UBS**

Offering Circular dated October 14, 2020

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In this Offering Circular, references to "**SMC Global Power**", the "**Company**" and the "**Issuer**" are to SMC Global Power Holdings Corp. or SMC Global Power Holdings Corp. and its subsidiaries, as the context requires. For avoidance of doubt, references to the Company as the independent power producer administrator ("**IPPA**") are references to the relevant consolidated subsidiary of the Company which executed the relevant IPPA Agreement for the administration of each of the Sual Power Plant, Ilijan Power Plant and San Roque Power Plant (collectively, the "**IPPA Power Plants**") and references to the administration by, or ownership of, the Company of any other power plant or power generation facility in this Offering Circular should be understood to refer to the administration or ownership of such plant or facility by the relevant consolidated subsidiary of the Company. References to the "combined installed capacity" in this Offering Circular are to the aggregate of the installed generation capacity of (i) the IPPA Power Plants administered by the Company as the IPPA, (ii) the Limay Greenfield Power Plant, (iii) the Davao Greenfield Power Plant, (iv) the Masinloc Power Plant, (v) the Masinloc battery energy storage system (the "**Masinloc BESS**") and (vi) the Angat Hydroelectric Power Plant ("**AHEPP**"), in which the Company has a 60.0% ownership interest. References to the "**ERC Resolution on Grid Market Share Limitation**" are to ERC Resolution No. 02, Series of 2020 dated March 2020 (Setting the Installed Generating Capacity and Market Share Limitation per Grid and the National Grid for 2020).

The term "**Joint Lead Managers**" refers to Merrill Lynch (Singapore) Pte. Ltd., Credit Suisse (Hong Kong) Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Singapore Branch. All references in this Offering Circular to the "**Philippines**" are to the Republic of the Philippines. Certain acronyms, technical terms and other abbreviations used are defined in the "*Glossary of Selected Terms*" of this Offering Circular.

Prospective investors should rely only on the information contained in this Offering Circular. The Issuer and the Joint Lead Managers have not authorized anyone to provide prospective investors with information that is different. The information in this document may only be accurate on the date of this Offering Circular. Nothing in this Offering Circular should be relied upon as a promise or representation as to future results or events, and neither the delivery of this Offering Circular nor any offering or sale of the Securities shall under any circumstances imply that there has been no change in the affairs of the Issuer or that the information herein is correct as of any date subsequent to the date hereof.

This Offering Circular is being furnished by the Issuer in connection with an offering exempt from the registration requirements under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") solely for the purpose of enabling a prospective investor to consider whether to purchase the Securities. The information contained herein has been provided by the Issuer and other sources identified herein.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers, DB Trustees (Hong Kong) Limited (the "**Trustee**") or the Agents (as defined in the terms and conditions of the Securities, the "**Conditions**") or any director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person has independently verified the information contained herein. No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person as to the accuracy or completeness of such information, and nothing contained herein is, or may be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person as to the past or the future. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Issuer, or for any other statement made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person or on any of their behalf in connection with the Issuer or in connection with the offering of the Securities. The Joint Lead Managers, the Trustee and the Agents and each director, officer, employee or agent of any of the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person accordingly disclaim all and any liability whether arising in tort or contract or otherwise that any of them might otherwise have in respect of this Offering Circular or any such statement.

The distribution of this Offering Circular and the offering and sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes must inform themselves about and observe any such restrictions. There are restrictions on the distribution of this Offering Circular and the offer and sale of the Securities in certain jurisdictions, including the United States, the United Kingdom, Singapore, Hong Kong, Japan, the European Economic Area ("**EEA**") and the Philippines. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in any circumstance in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

Each person investing in the Securities shall be deemed to acknowledge that:

- it has been afforded an opportunity to request from the Issuer and to review, and has received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained herein;

- it has had the opportunity to review all of the documents described herein;

- it has not relied on the Joint Lead Managers, the Trustee, the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of the information contained in the Offering Circular or its investment decision; and

- no person has been authorized to give any information or to make any representation concerning the Securities other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorized by the Issuer, the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Issuer, the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person.

Prospective investors should not construe the contents of this Offering Circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the Securities.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the terms of the Securities, including, without limitation, the merits and risks involved. None of the Issuer, the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Issuer, the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person is making any representation to any prospective investor regarding the legality of an investment in the Securities by such investor under any legal investment or similar laws or regulations. The offering of the Securities is being made on the basis of this Offering Circular. Any decision to invest in the Securities must be based on the information contained in this Offering Circular. Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Joint Lead Managers, the Trustee or the Agents or any director, officer, employee or agent of any of the Issuer, the Joint Lead Managers, the Trustee or the Agents or affiliate of any such person shall have any responsibility therefor.

Each person receiving this Offering Circular is advised to read and understand the contents of this Offering Circular before investing in the Securities. If in doubt, such person should consult his or her advisors. This Offering Circular has been prepared on the basis that all offers of the Securities will be made pursuant to an exemption under Regulation (EU) 2017/1129, from the requirement to produce a prospectus for offers of the Securities. Accordingly, any person making or intending to make any offer within the EEA of the Securities which are the subject of the placement contemplated in this Offering Circular should only do so in circumstances in which no obligation arises for the Issuer or any of the Joint Lead Managers or any director, officer, employee or agent of any of the Issuer or the Joint Lead Managers or affiliate of any such person to produce a prospectus for the offer. Neither the Issuer nor the Joint Lead Managers have authorized, nor do they authorize the making of any offer of the Securities through any financial intermediary, other than offers made by the Joint Lead Managers which constitute the final placement of the Securities contemplated in this Offering Circular.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or the United Kingdom. For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or the United Kingdom has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPs Regulation.

This Offering Circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**"). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**") — SMC Global Power has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the Securities and Futures Act), that the Securities are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**")) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Issuer reserves the right to withdraw this offering of the Securities at any time. The Issuer and the Joint Lead Managers also reserve the right to reject any offer to purchase the Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Securities sought by such investor. This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any Securities offered hereby in any circumstances in which such offer is unlawful.

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See "*Subscription and Sale*." Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investors agree to the foregoing by accepting delivery of this Offering Circular.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause the actual results, performance or achievements of SMC Global Power to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of SMC Global Power and the environment in which SMC Global Power will operate in the future. Important factors that may cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC Global Power to successfully implement its strategies;
- the historic and ongoing impact of the COVID-19 pandemic on the operations, financial condition, and cash flows of SMC Global Power's power generation facilities and other businesses;
- the ability of SMC Global Power to anticipate and respond to market trends;
- changes in availability and prices of fuel used in the power plants of SMC Global Power;
- unexpected shutdowns of (i) the IPPA Power Plants for which SMC Global Power acts as the IPPA and (ii) the Masinloc Power Plant, the Davao Greenfield Power Plant, the Limay Greenfield Power Plant and the AHEPP;
- adverse weather patterns and natural disasters;
- the ability of SMC Global Power to successfully manage its growth;
- the ability of SMC Global Power to successfully implement and manage its power portfolio;
- the condition of and changes in, the Philippine, Asian or global economies;
- any political instability in the Philippines;
- the ability of SMC Global Power to secure additional financing;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- price volatility in the wholesale energy spot market;
- other risks relating to the Philippines, including changes in laws, rules and regulations, including tax laws and licensing requirements;
- changes in power supply and demand dynamics in the Philippines;

- competition in the Philippine power industry; and

- risks relating to the Securities.

Additional factors that could cause the actual results, performance or achievements of SMC Global Power to differ materially from forward-looking statements include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Offering Circular. These forward-looking statements speak only as of the date of this Offering Circular. SMC Global Power, the Joint Lead Managers, the Trustee and the Agents expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect events or circumstances, or to reflect any change in the expectations of SMC Global Power with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based or to reflect that SMC Global Power became aware of any such events or circumstances, that occur after the date of this Offering Circular. The Issuer, the Joint Lead Managers, the Trustee and the Agents assume no obligation to update any of the forward-looking statements after the date of this Offering Circular to conform those statements to actual results, subject to compliance with all applicable laws.

This Offering Circular includes statements regarding the expectations and projections of the Company for future operating performance and business prospects. The words "believe," "plan," "expect," "anticipate," "estimate," "project," "intend," "will," "shall," "should," "may," "would" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Statements in the Offering Circular as to the opinions, beliefs and intentions of SMC Global Power accurately reflect in all material respects the opinions, beliefs and intentions of its management as to such matters as of the date of this Offering Circular, although SMC Global Power gives no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Offering Circular discloses, under the section "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from expectations of the Company. All subsequent written and oral forward-looking statements attributable to SMC Global Power or persons acting on behalf of SMC Global Power are expressly qualified in their entirety by the above cautionary statements.

Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Offering Circular speaks only as of the date the statement was made.

All of the forward-looking statements of SMC Global Power made herein and elsewhere are qualified in their entirety by the risk factors discussed in "*Risk Factors*" and "*Industry Overview*". These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Offering Circular.

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts used throughout this Offering Circular were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information are not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Joint Lead Managers, the Trustee nor the Agents makes any representation as to the accuracy or completeness of that information.

Information relating to or obtained from the Business Monitor, Department of Energy ("**DOE**"), Economist Intelligence Unit, Energy Regulatory Commission ("**ERC**"), Manila Electric Company ("**Meralco**"), National Grid Corporation of the Philippines ("**NGCP**"), National Power Corporation ("**NPC**"), Philippine Statistics Authority, Philippine Electricity Market Corporation ("**PEMC**"), Power Sector Assets and Liabilities Management Corporation ("**PSALM**"), National Transmission Corporation ("**TransCo**") and Wholesale Electricity Spot Market ("**WESM**") set forth in this Offering Circular was obtained from publicly available sources that are believed to be reliable but such information has not been independently verified. Neither the Issuer nor the Joint Lead Managers makes any representation as to the accuracy of such information regarding the Business Monitor, DOE, Economist Intelligence Unit, ERC, Meralco, NGCP, NPC, the Philippine Statistics Authority, PEMC, PSALM, TransCo or WESM.

STANDARDS FOR OPERATING STATISTICS

The power plant operating statistics and information included in this Offering Circular are based on the power plant operating data that have been provided by the independent power producer of the relevant power plant and grid system operators. SMC Global Power believes these have been measured in accordance with internationally recognized power plant operation standards set by the American Society of Mechanical Engineers, Power Test Code, Institute of Electrical and Electronics Engineering, Energy Power Research Institute or equivalent internationally-accepted standards, as applicable. SMC Global Power has not independently verified the power plant operating data provided by the independent power producers and grid system operators. Neither SMC Global Power nor any of the Joint Lead Managers makes any representation as to the accuracy of such information provided by the independent power producers and grid system operators.

PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial statements of SMC Global Power are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standards Council of the Philippines ("**FRSC**"). PFRS include statements named PFRS and Philippine Accounting Standards, and Philippine Interpretations from International Financial Reporting Interpretations Committee.

Unless otherwise stated, all financial information relating to SMC Global Power contained herein is stated in accordance with PFRS.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

References to "**U.S.$**" and "**U.S. dollars**" in this Offering Circular are to United States dollars, the lawful currency of the United States of America, references to "**₱**", "**Philippine Peso**" and "**Peso**" are to the lawful currency of the Philippines. The Issuer publishes its financial statements in Philippine Pesos. This Offering Circular contains translations of certain amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱49.83 = U.S.$1.00, being the closing rate on June 30, 2020 for the purchase of U.S. dollars with Philippine Pesos as provided by the Bankers' Association of the Philippines ("**BAP**"). On October 9, 2020, the closing spot rate quoted on the BAP was U.S.$1.00 = ₱48.31. See "*Exchange Rates*" for further information regarding the rates of exchange between the Philippine Peso and the U.S. dollar.

The financial information included in this Offering Circular has been derived from the consolidated financial statements of SMC Global Power and its subsidiaries. Unless otherwise indicated, the description of the business activities of the Issuer in this Offering Circular is presented on a consolidated basis.

NON-PFRS FINANCIAL MEASURES

This Offering Circular contains references to EBITDA. EBITDA is a supplemental measure of the performance and liquidity of the Company that is not required by, or presented in accordance with, PFRS. Further, EBITDA is not a measurement of the financial performance or liquidity of the Company under PFRS and should not be considered as an alternative to net income, gross revenues or any other performance measure derived in accordance with PFRS or as an alternative to cash flow from operations or as a measure of the liquidity of the

Company. The Company calculates EBITDA as the sum of net income (excluding items between the Company and its subsidiaries or among its subsidiaries), income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries, less foreign exchange gain (loss), gain on sale of investment, and aggregate fixed payments made to PSALM. The calculation of EBITDA by SMC Global Power may be different from the calculations used by other companies, and, as a result, the EBITDA of SMC Global Power may not be comparable to other similarly titled measures of other companies.

The Company believes that EBITDA facilitates operating performance comparisons from period to period and from company to company by eliminating potential differences caused by variations in capital structures, tax positions and the age and book depreciation of tangible assets. The Company presents EBITDA because it believes it is frequently used by securities analysts and investors in the evaluation of companies in its industry.

ENFORCEABILITY OF CIVIL LIABILITIES

SMC Global Power is established in the Philippines and all or a substantial portion of its operating assets are located in the Philippines. Substantially all of its directors and senior management reside in the Philippines. The Company has been advised by its Philippine legal counsel, Picazo Buyco Tan Fider & Santos, that a final and conclusive judgment on the merits rendered against the Company and these persons by courts outside the Philippines obtained in an action predicated upon the civil liability provisions of laws other than Philippine laws would be recognized and enforced by the courts in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, provided the following conditions are satisfied, namely: (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) such persons had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of law or fact and (iv) such judgment was not contrary to public policy, law, morals or good customs in the Philippines.

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of SMC Global Power that appear elsewhere in this Offering Circular. The meaning of terms not defined in this summary can be found elsewhere in this Offering Circular.

OVERVIEW

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,362 MW of combined capacity as of June 30, 2020. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020, the Company's combined capacity increased to 4,697 MW. The Company benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, battery energy storage systems ("**BESS**"). Based on the total installed generating capacities reported in the Energy Regulatory Commission ("**ERC**") Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid, in each case, as of June 30, 2020.

San Miguel Corporation entered the power industry in 2009 following the acquisition of rights to administer the output produced by Independent Power Producers ("**IPPs**") in privatization auctions conducted by the Government through Power Sector Assets and Liabilities Management Corporation ("**PSALM**"). The following companies under the San Miguel Corporation group became the IPPA of the following plants: (1) San Miguel Energy Corporation ("**SMEC**") became the IPPA for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) Strategic Power Devt. Corp. ("**SPDC**") became the IPP Administrator ("**IPPA**") for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010; and (3) South Premiere Power Corp. ("**SPPC**") became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010 (the Ilijan Power Plant, Sual Power Plant and San Roque Power Plant are collectively referred to as the "**IPPA Power Plants**").

An IPPA under the relevant IPPA agreement has the right to sell electricity generated by the power plants owned and operated by the relevant IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the WESM.

In September 2010, San Miguel Corporation consolidated its power generation business through the transfer of its equity interests in SMEC, SPDC and SPPC to SMC Global Power. SMC Global Power also became a wholly-owned subsidiary of San Miguel Corporation. Since then, SMC Global Power has controlled the 2,545 MW combined contracted capacity of the IPPA Power Plants through the IPPA agreements executed by SMEC, SPDC and SPPC, respectively.

Building on its experience as an IPPA since San Miguel Corporation's transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant which is owned by San Miguel Consolidated Power Corporation ("**SMCPC**"), its wholly-owned subsidiary, and the 4 x 150 MW Limay Greenfield Power Plant which is owned by SMC Consolidated Power Corporation ("**SCPC**"), another wholly-owned subsidiary. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively, while Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. In November 2014, SMC Global Power, through its subsidiary PowerOne Ventures Energy Inc. ("**PVEI**"), acquired a 60% stake in Angat Hydropower Corporation ("**AHC**"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant (the "**AHEPP**"). On March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests SMCGP Masin Pte. Ltd. ("**SMCGP Masin**", formerly Masin AES Pte. Ltd.) from AES Phil Investment Pte. Ltd. ("**AES Phil**") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. ("**MPPCL**") and SMCGP Philippines Energy Storage Co. Ltd. ("**SMCGP Philippines Energy**", formerly AES Philippine Energy Storage Co. Ltd. and together with SMCGP Masin and MPPCL, the "**Masinloc Group**")). On September 19, 2018, Prime Electric Generation Corporation ("**PEGC**"), a wholly-owned subsidiary of SMC Global Power, and Oceantech Power Generation Corporation ("**OPGC**") purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project nearing completion (together, comprising the "**Masinloc Power Plant**"), and the 10 MWh battery energy storage system project (the "**Masinloc BESS**"), all located in Masinloc, Zambales, while SMCGP Philippines Energy completed the construction and installation of the 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the "**Kabankalan BESS**") in March 2020. SMC Global Power was admitted as an additional limited partner of SMCGP Masinloc Partners Co. Ltd. in 2019 (a limited partnership under the Masinloc Group) and of MPPCL in June 2020, which is pending approval of the Philippine SEC.

As part of the purchase relating to the Masinloc power assets, SMC Global Power also acquired SMCGP Transpower Pte. Ltd. ("**SMCGP Transpower**") and SMCGCP Philippines, Inc. ("**SPHI**"). SMCGP Transpower was a subsidiary of The AES Corporation, which provided corporate support services to MPPCL through its Philippine regional operating headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provided energy marketing services to MPPCL.

In July 2018, PEGC acquired the entire equity interest of ALCO Steam Energy Corp. in Alpha Water Realty & Services Corporation ("**Alpha Water**"), representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant in Zambales Province is located.

In September 2018, PEGC and OPGC, another wholly-owned subsidiary of SMC Global Power, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

In February 2020, Strategic Energy Development Inc. ("**SEDI**") executed an agreement for the acquisition of the 15 MW multi-fuel peaking power plant ("**Tagum Peaking Power Plant**") located at Tagum City, Davao del Norte owned by EEI Power Corporation for U.S.$11 million to provide back-up power to the Davao Greenfield Power Plant.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCPC, SMELC, SEDI and MPPCL, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

SMC Global Power is also engaged in distribution and retail electricity services. In 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of Albay Electric Cooperative, Inc. ("**ALECO**"), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon. SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three retail electricity supplier ("**RES**") licenses issued to SMC Global Power, through San Miguel Electric Corporation ("**SMELC**"), SCPC and MPPCL, allows it to enter into contracts with contestable customers and expand its customer base.

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, owns coal exploration, production and development rights over approximately 17,000 hectares of land in

Mindanao. While the Company does not intend to develop these sites imminently, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation, one of the largest and most diversified conglomerates in the Philippines, founded in 1890 that is listed in the Philippine Stock Exchange ("**PSE**"). San Miguel Corporation has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services. The Company believes that its relationship with San Miguel Corporation allows it to draw on the extensive business networks, local business knowledge, relationships and expertise of San Miguel Corporation and its key executive officers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power sold 15,707 GWh, 20,273 GWh, 26,133 GWh, 13,635 GWh and 11,780 GWh of power pursuant to bilateral offtake agreements and 1,520 GWh, 3,590 GWh, 1,979 GWh, 1,000 GWh and 1,057 GWh of power through the WESM, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power purchased 684 GWh, 1,144 GWh, 1,973 GWh, 759 GWh and 946 GWh of power from the WESM, respectively.

For the year ended December 31, 2019, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱135,060.0 million (U.S.$2,710.4 million), ₱14,363.5 million (U.S.$288.3 million) and ₱8,297.3 million (U.S.$166.5 million), respectively. For the six months ended June 30, 2020, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱ 57,176.5 million (U.S.$1,147.4 million), ₱9,063.1 million (U.S.$181.9 million) and ₱6,564.1 million (U.S.$131.7 million), respectively. As of June 30, 2020, SMC Global Power had total consolidated assets of ₱587,112.8 million (U.S.$11,782.3 million).

Expansion Projects

Power Plant Portfolio

Unit 3 of the Masinloc Power Plant (335 MW) completed commissioning and commenced commercial operations on September 26, 2020. The expansion of Unit 3 of the Masinloc Power Plant is fully funded and will increase the capacity of the Masinloc Power Plant by approximately 50%. Unit 3 of the Masinloc Power Plant is capable of supplying 100% of its load. The Company intends to further expand the Masinloc Power Plant by constructing an additional unit utilizing supercritical boiler technology (Unit 4) with a planned gross installed capacity of 350 MW. Masinloc Power Plant Unit 4 is targeted for completion in 2024 and the Company is currently in the process of finalizing the EPC Contract for this project.

SMC Global Power currently owns 89.54% of the equity interests in MPGC, which intends to develop, construct, finance, own, operate and maintain a coal-fired power plant and associated facilities using high efficiency low emission technologies ("**HELE Technologies**") with planned installed capacity of 600 MW in Mariveles, Bataan, expected to commence commercial operations in 2022 to 2023 (the "**Mariveles Greenfield Power Plant**"). The site development is at 47.62% completion as of August 2020 while the steam turbine for Unit 1 and the generator for Unit 2 were shipped in June 2020.

The Company, through its wholly-owned subsidiaries, including Central Luzon Premiere Power Corp. ("**CLPPC**"), plans to pursue further expansion of its power portfolio through the development and construction of a new power plant using HELE Technologies located in Pagbilao, Quezon with planned installed capacity of 600 MW and with target completion date in 2024 to 2025 (the "**Pagbilao Greenfield Power Plant**").

In addition and as part of the Company's diversification of its power portfolio into LNG, the Company, through its subsidiary Excellent Energy Resources Inc. ("**EERI**"), plans to construct an 850MW combined cycle power plant in Ilijan, Batangas (the "**Ilijan Expansion Plant"**) and is evaluating utilizing natural gas for other contemplated projects, including in San Carlos City, Negros Occidental. Various EPC contractors have submitted offers for the development of combined cycle natural gas-fired power plants. These would result in capital expenditure costs of approximately U.S.$1.1 million/MW to U.S.$1.3 million/MW, compared to U.S.$2.2 million/MW for coal-fired plants The projected construction period is also faster with estimates from the same offers ranging from 1.5 to 2 years compared with the construction period for coal-fired power plants, which have historically ranged from three to four years.

The Company is also exploring various LNG regasification and storage solutions, as well as possible improvements or retrofitting of the Ilijan Power Plant. The Company has identified locations for the Ilijan Expansion Plant, and is in the process of negotiating with potential EPC contractors as of June 30, 2020. As of the date of this Offering Circular, the Company has shortlisted Siemens, MHPS, FHI, B&V, Posco and Daelim as EPC contractors for the Ilijan Expansion Plant.

The Company continues to participate in CSPs for PSAs with distribution utilities, and negotiate for RSCs with contestable customers for these expansion plans.

Natural Gas Projects

The Company, through SPPC, expects to become the owner and operator of the Ilijan Power Plant by June 2022 pursuant to the Ilijan IPPA. Simultaneously, the existing gas supply from Malampaya will expire and SPPC will need to procure its own natural gas supply. The Company believes that the natural gas volumes required by the Ilijan Power Plant can propel the establishment of natural gas projects in the Philippines as such natural gas requirements could serve as foundation volumes to be serviced by LNG suppliers.

The Company has access or control over approximately 73 hectares of land adjacent to the Ilijan Power Plant. This includes land area and properties along the shoreline with priority to use the foreshore area over a uniquely deep ocean area (15.5m draught) that is close to shore (220 km). The Company intends to locate the Ilijan Expansion Plant on these properties.

The Company has executed a binding term sheet covering terminal use agreements ("**TUA**") to be entered into by its subsidiaries SPPC and EERI for the use of an LNG terminal which will be constructed by AG&P, through its subsidiary AG&P Manila. The TUA will allow SPPC and other terminal users to receive, store and regasify LNG from the global market through the proposed hybrid LNG Terminal to be constructed by AG&P Manila in Ilijan, Batangas (the "**Ilijan LNG Terminal**"). Ilijan LNG Terminal will use modular technology, resulting in a cost-effective EPC cost and consequently, would be expected to impose a viable terminal use fee for the power plants it will service. The proposed Ilijan LNG Terminal, which is planned to begin commercial operations by June 2022, will have the following components and features:

Feature	Specifications
Storage	FSU - 137,000 cubic meters Onshore storage - 60,000 cubic meters
Regas	420 (5x82) mmscfd good for 3.0 MTPA or ~3,000 MW of Power Plant Capacity[1]
BOG Handling	Efficient LNG processing and storage, minimizing environmental impact
Mooring	Jetty, 4 berthing dolphins, 6 mooring dolphins, LNG unloading arms (cryogenic)
Balance of plant	Utilities, seawater pump, gas boiler skid, gas receiving facilities
Provision for additional capacity	Modular regasification units (provision for 5 to 6 regas units, or approx. 500 mmscfd) Modular onshore LNG storage (provision for up to 180,000 cubic meters)

The planned Ilijan LNG Terminal will be developed by AG&P. AG&P has extensive expertise in LNG regasification technologies and the development and execution of LNG infrastructure solutions to utilize natural gas for retail and power plant use. AG&P is the majority owner of GAS Entec, the pioneer for modular regasification solutions and patent holder for Regastainer ® technologies ("**Regastainer**"), which provides a versatile and reliable regasification solution for both onshore and offshore (floating regasification unit or FRU) deployment.

AG&P also has a strong network of partners for LNG and its experience in LNG projects includes acting as EPC for major hybrid terminals in Asia and undertaking Regastainer fabrication and delivery for multiple projects around the world, including in Singapore, South Korea, Turkey, and across Africa.

The Company believes that AG&P has an excellent track record in Philippine construction and design, with strong Philippine manufacturing capacities including 60,000 MT per annum structural fabrication capacity, 600,000 dia-inches per annum piping fabrication capacity, and 125,000 MT per annum assembly capacity. AG&P also has a large local manpower pool and is capable of worker mobilization of up to 4,000 persons (compared to the estimated 1,000 persons necessary for constructing the Ilijan LNG Terminal). AG&P also owns a 96-hectare yard for fabrication in Bauan, Batangas, which is in close proximity to the planned Ilijan LNG Terminal. This yard is approximately 20 kilometers and approximately 37 kilometers away by barge and land, respectively. The Company believes that AG&P's proximity and capabilities provides flexibility through utilizing a modular approach to construction and offsite fabrication.

BESS Portfolio

The Company is undertaking the expansion of its portfolio of BESS projects by an additional 1,000 MWh. As part of these expansion plans, the Company has completed the construction and installation of the Kabankalan BESS (20 MWh) in March 2020. The Kabankalan BESS has also completed the ancillary services and Philippine Grid Code ("**Grid Code**") compliance tests conducted by, and negotiations for Ancillary Services Procurement Agreements ("**ASPA**") have been initiated with, NGCP. The Kabankalan BESS is currently awaiting the certificate from NGCP and inspection by the ERC. Upon receipt of a certificate of compliance from the ERC, the Kabankalan BESS can officially attain commercial operations.

In respect of permits, environmental compliance certificates ("**ECCs**") for 18 sites have been secured. Moreover, BOI registration for 31 sites have been completed, which includes 28 projects that were granted pioneer status by the BOI. Pioneer status provides these projects an extended income tax holiday of six years instead of four years (under non-pioneer status). The Company also has a pending application with the DOE to grant its BESS projects the status of Energy Project of National Significance (EPNS). EPNS status confers certain advantages which will streamline the process of obtaining permits, among others. See "*Regulation and Environmental Matters — Regulations relating to energy projects of national significance*."

In addition, the Company, through its subsidiaries UPSI, MPPCL and SMCGP Philippines Energy Storage Co. Ltd., have executed turnkey contracts with leading battery EPC contractors for an aggregate of 960 MWh (out of the 1,000 MWh) installed power capacity. In connection with this, equipment representing 220 MWh of battery modules, 360 MWh of inverters, 220 MWh of core transformers, 280 MWh of enclosures, and 80MWh of power transformers have already been delivered at storage areas. Manufacturing is ongoing for 29 of the 41 power transformers, 97,500 of the 150,000 battery modules, 196 out of 290 containers/ enclosures, and 341 out of the 485 inverters.

The Company, through its subsidiaries, has executed a Memorandum of Understanding on January 21, 2020 with battery module manufacturer, Samsung SDI, which grants the Company preferential customer status and competitive pricing, performance guarantees and extended support periods and warranties, among others. Samsung SDI is recognized worldwide as a reputable battery module manufacturer, with a manufacturing process that has a 2,000-point, real-time, quality control system.

The Company has also identified and is currently evaluating additional sites that can be used to construct an additional 400-500 MWh in BESS projects across various provinces, such as La Union, Zambales, Bulacan, Pangasinan, Bataan, Cagayan, Nueva Vizcaya, Laguna, Quezon, Camarines Norte, Camarines Sur and Samar.

Of these 1,000 MWh BESS projects, 470 MWh across 15 sites is expected to be substantially complete in the course of 2020 and the first quarter of 2021, with the remaining 530 MWh across 16 sites by expected to be completed over the course of the second quarter to the fourth quarter of 2021. With regards to final completion, six sites equivalent to 190 MWh are expected to achieve final completion over the course of 2020 through the first quarter of 2021, with the remaining 25 sites equivalent to 810 MWh expected to be completed over the course of the second to last quarter of 2021. As of August 2020, overall projection completion is 32%.

IMPACT OF COVID-19 AND RECENT DEVELOPMENTS

The COVID-19 Pandemic

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization. As of June 30, 2020, there have been over ten million confirmed cases worldwide and as of August 31, 2020, there were over 220,000 confirmed cases in the Philippines. Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

The Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine ("**ECQ**") was imposed on the island of Luzon, including Metro Manila. Initially, the ECQ was set to end by April 12, 2020 but was subsequently extended for two-week periods until May 15, 2020 (the period from March 16, 2020 through May 15, 2020, the "**ECQ period**"). Under the ECQ guidelines, restrictions on movement outside of the residence were set in place (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products such as hygiene products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as hospitals, power and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity.

After the ECQ was lifted in certain areas, a modified ECQ ("**MECQ**"), general community quarantine ("**GCQ**") or modified GCQ ("**MGCQ**") was implemented. On June 1, 2020, Metro Manila was placed under GCQ, which allowed certain sectors, including agriculture, food manufacturing and all supply chains, packaging and raw materials, supermarkets and logistics, among others, to resume full operations. The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations. The Philippine government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. Metro Manila was again placed under MECQ again from August 4 until August 18, 2020. As of the date of this Offering Circular, Metro Manila is under GCQ.

The day-to-day operations of the Company, being primarily engaged in power generation, were not significantly affected by the ECQ or other graduated quarantine measures because the Government considers power generation as an essential service and operations related thereto continue to be permitted. As a result, the Company's power generation activities and the ongoing repairs and preventive maintenance works remain generally unhampered.

Impact on the Company

The demand from industrial customers in the Luzon grid decreased significantly during the ECQ period as a result of the cessation or suspension of business operations, but has gradually increased with the transitions from ECQ to MECQ and GCQ, as the gradual reopening of economic activities was permitted in Metro Manila. In contrast, the demand from most of the Company's utility customers increased compared to their historical demand, which more than compensated for the reduction of industrial demand. Notably, a significant portion, of utility demand represents residential and small-scale industrial customers and commercial businesses, which had consistent and levelled load profiles throughout the quarantine periods, resulting in improved fuel and operational efficiencies in the Company's power plants. From the Company's perspective, its bilateral energy volumes were derived mainly from contracted capacity with utility companies. Their respective PSAs mostly require a take-or-pay arrangement or impose minimum offtake volumes, which thus allow the Company to continuously bill these customers at the relevant contracted volumes even during the various community quarantine periods.

Prior to the ECQ period, the industry was gearing up for peak generation. Currently, gross installed capacity in Luzon is at 16,000 MW, out of which about 10,000 MW is considered as reliable. The DOE ensured that all generating units continued to operate at full capacity during the ECQ period, in spite of the low demand that resulted to the unusually low WESM prices for the period, ranging from ₱0.00/KWh to ₱1.00/KWh during certain intervals.

Prior to and during the ECQ period, certain power generating units of the Company were approved by the relevant regulators to shut down for various technical reasons, including for advanced preventative maintenance works. These were Units 3 and 4 of Limay Greenfield Power Plant and Units 1 and 2 of Masinloc Power Plant, accounting for almost 1,000 MW in total installed capacity. In addition, the commencement of commercial operations of Unit 3 of the Masinloc Power Plant was rescheduled to September 26, 2020. To minimize unfavorable exposure to WESM during the ECQ period, the Company ensured that not more than 3% of net generation volumes were sold to the spot market. The Company also leveraged on low WESM prices by purchasing up to 14% of its bilateral volume requirements from WESM; prior to the ECQ, the Company would purchase less than 5% of its requirements from the market. The Company also reviewed contract terms with certain industrial customers and negotiated for a reduction in maximum allowable capacity totaling to about 91 MW, which aids in reducing risk of demand variances during periods of uncertainty.

The Company's PSAs with distribution utilities and Meralco baseload were generally unaffected by the various community quarantine measures, as these comprise mostly demand from residential customers and small-scale industrial customers and commercial businesses, which generally have steady load profiles and as such, are not susceptible to peaks and drops in demand. These distribution utilities and Meralco baseload comprise more than 50% of the Company's bilateral demand and have maintained a steady load factor of around 75% to 80% throughout the community quarantines. However, during the ECQ period, the Company's customer groups representing commercial and industrial customers registered a 39% drop in demand due to government-mandated restrictions on their industrial activities. The impact of this drop in demand was mitigated by optimizing maintenance outage schedules, generation portfolio bids and dispatch, and bilateral volume nominations to maintain WESM exposure at ideal levels given the low prevailing spot prices. Demand from industrial customers recovered substantially when the quarantine protocols were relaxed in June 2020. All of these, along with higher Meralco mid-merit nominations, improved overall bilateral demand and helped the Company in achieving its target EBITDA as of June 2020.

In terms of fuel and inventory, the Company has sufficient inventory to meet the requirements of its power plants. Access to fuel shipments have not been adversely affected by the COVID-19 travel restrictions and there have been no cases of delivery disruptions on coal, even during the height of the ECQ period. The Company maintained a physical inventory equivalent to 28.50 days operations in aggregate for its coal-fired power plant portfolio as of June 30, 2020. The Company has also negotiated for the deferral of certain coal shipments in alignment with downstream demand. Another contributor to achieving targeted margins was the low price of coal this year. In 2019, Newcastle was approximately U.S.$80/MT and for the first half of 2020, it was approximately U.S.$60/MT. The Company has entered into fixed price contracts for coal, which have been at historical lows, allowing it to have competitive coal fuel costs.

As part of the Government's ECQ measures, the ERC and the DOE issued separate advisories allowing the deferred payment of power bills falling due within the ECQ period. Such bills may be paid over four equal monthly installments. As of June 30, 2020, the Company has outstanding net trade receivables inclusive of VAT amounting to ₱27.6 billion. Of this amount, ₱3.69 billion is overdue driven primarily by COVID-19 related concessions negotiated with customers and/or reprieves allowed by the DOE and ERC. These outstanding amounts are primarily accrued from credit-worthy distribution utilities such as Meralco, and various industrial customers, and are expected to be collected within the next 12 months. As the Company's consolidated unrestricted cash and cash equivalents as of June 30, 2020 amounted to ₱93.0 billion, the Company believes that it has sufficient funds to continue settling its obligations as they fall due while accommodating the deferred payment schemes availed of by its customers, and even if it does not avail of a corresponding payment deferral as may be allowed by the regulators.

Measures Taken to Ensure Safety and Well-Being

To ensure a safe return to work, the SMC Group purchased polymerase chain reaction ("**PCR**") testing kits to cover the estimated 70,000 employees, consultants, partners and service providers in the SMC Group's system, including SMC Global Power's employees. On July 3, 2020, SMC opened its own COVID-19 testing center which can process up to 4,000 tests daily. SMC Global Power has been cautiously allowing employees to return to the workplace and has provided protective gear and vitamins to employees as well as certain incentives in addition to regular pay.

The Company has also taken measures to ensure employee safety and well-being and to protect its facilities, which include, but are not limited to, checking the temperature of employees and other persons when they enter its offices and facilities, maintaining an adequate supply of alcohol and hand sanitizers for use at the premises, requiring employees to wear masks and other protective clothing as appropriate, minimizing in-person meetings, and implementing additional cleaning and sanitization routines.

In addition and as a critical safety measure to prevent the spread of COVID-19 cases and ensure operational resiliency, power plant personnel stay in the plant premises and are provided with the necessary accommodations, including food and other essential supplies during the relevant quarantine periods. A "No RT-PCR Test, No Entry" policy has also been implemented for all employees and third-party contractors working in the Company's power plants. In addition, support functions have been placed under flexible work arrangements (i.e. work from home, skeletal work force). These measures allow the Company to operate its power plant portfolio continuously and at levels sufficient to meet its bilateral volume commitments to its customers notwithstanding economic and logistical challenges faced in the ongoing pandemic. The "No RT-PCR Test, No Entry" policy continues to be strictly implemented in all the facilities of SMC Global Power, which prevented the spread of the virus to plant personnel and third party contractors in the Masinloc Power Plant. The Company, in coordination with the Municipality of Masinloc have also worked together on the effective containment of the virus in the Masinloc Power Plant. As of the date of this Offering Circular, all the discovered cases in Masinloc have fully recovered. The Company has ensured that all employees who have tested positive are cared for and has taken steps in protecting all employees by strictly following safety protocols. To date, all these employees have either fully recovered or are recovering well.

The Company continues to review and will implement the necessary changes to its operations and business processes as well as its capital expenditure plans in view of the global and local economic factors as a result of the COVID-19 pandemic. SMC Global Power places equal importance to maintaining and, in certain aspects, even improving its financial position and financial performance during the community quarantine period and for the rest of the year.

STRENGTHS

- Industry leader with a strong growth platform.
- Well-positioned to capture future demand growth.
- Stable and predictable cash flows.
- Flexible and diversified power portfolio.

- Established relationships with world class partners.
- A member of the San Miguel Corporation group of companies.
- Experienced and highly competent management team.
- Strong commitment to stringent environmental policies and pollution controls.

STRATEGIES

- Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins.
- Well-positioned as a leading baseload power generator utilizing clean power technologies.
- To be a leading player in the ancillary reserve market and renewable energy initiatives through strategic establishment of battery energy storage systems across the Philippines.
- Continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments.
- Vertically integrate complementary businesses in order to diversify its energy portfolio.
- Continue to pursue and develop measures to reduce emissions and operate power plants within and below applicable environmental compliance standards.
- Leverage operational synergies with San Miguel Corporation group of companies.

CORPORATE INFORMATION

SMC Global Power is incorporated under the laws of the Philippines. The registered office and principal place of business of SMC Global Power is located at SMC Global Power Holdings Corp., 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Philippines. The telephone number of SMC Global Power is +632-8702-4500.

The investor relations officer of SMC Global Power is Reyna-Beth De Guzman, who can be reached at rdeguzman@sanmiguel.com.ph.

SUMMARY FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated statement of financial position data as of December 31, 2017, December 31, 2018 and December 31, 2019, and summary historical consolidated statement of income and cash flow data for the years ended December 31, 2017, December 31, 2018 and December 31, 2019 set forth below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Offering Circular. The summary historical consolidated statement of financial position data as of June 30, 2020 and summary historical consolidated statement of income and cash flow data for the six months ended June 30, 2019 and June 30, 2020, respectively set forth below, have been derived from, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Offering Circular.

The consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2017, 2018 and 2019 were audited by KPMG. The condensed consolidated interim financial statements of SMC Global Power as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 were reviewed by KPMG.

Unless otherwise stated, SMC Global Power has presented its consolidated financial results under PFRS.

Potential investors should read the following data together with the more detailed information contained in "Management's Discussion and Analysis of Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Offering Circular. The following data is qualified in its entirety by reference to all of that information.

Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BAP closing rate on June 30, 2020 of ₱49.83 to U.S.$1.00.

CONSOLIDATED STATEMENT OF INCOME DATA

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
				(in millions)			
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Revenues	82,790.6	120,102.8	135,060.0	2,710.4	72,510.7	57,176.5	1,147.4
Costs and Expenses							
Cost of power sold:							
Energy fees	23,726.5	25,423.5	26,417.1	530.1	14,842.7	11,175.0	224.3
Coal, fuel oil and other consumables	13,039.1	32,563.7	31,362.5	629.4	17,989.2	12,578.4	252.4
Power purchases	10,725.5	11,181.2	21,434.8	430.2	11,246.4	5,533.6	111.1
Depreciation and amortization	5,842.4	9,108.9	9,651.5	193.7	4,748.7	5,015.8	100.7
Plant operations and maintenance fees	491.8	2,541.0	2,892.3	58.0	1,399.5	1,890.6	37.9
Selling and administrative expenses	4,689.0	6,110.2	7,348.2	147.5	3,899.6	2,863.0	57.5
	58,514.3	86,928.5	99,106.4	1,988.9	54,126.2	39,056.4	783.8
Income from operations	24,276.3	33,174.3	35,953.7	721.5	18,384.5	18,120.1	363.6
Interest income	460.9	661.2	1,585.5	31.8	668.7	726.8	14.6
Equity in net earnings (losses) of associates and joint ventures — net	(40.4)	(471.2)	(391.1)	(7.8)	(22.0)	(393.7)	(7.9)
Interest expense and other financing charges	(13,244.6)	(17,616.1)	(19,720.7)	(395.8)	(10,304.2)	(9,368.3)	(188.0)
Other income (charges) — net	2,944.2	(3,546.6)	4,199.3	84.3	2,220.2	4,059.2	81.5
Income before income tax	14,396.4	12,201.6	21,626.6	434.0	10,947.2	13,144.1	263.8
Income tax expense — net	6,179.5	3,901.5	7,263.1	145.8	3,684.5	4,081.0	81.9
Net income	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
Attributable to:							
Equity holders of the Parent Company	8,216.9	8,281.8	14,370.5	288.4	7,273.0	9,049.8	181.6
Non-controlling interest	—	18.3	(7.0)	(0.1)	(10.3)	13.3	0.3
	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
Earnings per common share attributable to equity holders of the Parent Company (Basic/Diluted)	₱ 4.11	₱ 2.67	₱ 5.21	U.S. $ 0.10	₱ 3.39	₱ 2.67	U.S.$ 0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,				As of June 30,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
				(in millions)			
	₱	₱	₱	U.S.$	₱	₱	U.S.$
ASSETS							
Current Assets							
Cash and cash equivalents	28,655.4	28,511.9	79,954.2	1,604.5	63,091.2	92,995.1	1,866.2
Trade and other receivables — net	20,435.1	33,046.7	29,989.4	601.8	34,368.5	37,651.5	755.6
Inventories	3,147.7	5,294.6	5,085.4	102.1	4,106.0	4,942.8	99.2
Prepaid expenses and other current assets	17,791.8	21,761.7	23,589.6	473.4	21,582.5	25,284.6	507.4
Total Current Assets	70,030.0	88,614.9	138,618.7	2,781.8	123,148.2	160,874.0	3,228.5
Noncurrent Assets							
Investments and advances — net	16,621.1	12,149.0	11,000.8	220.8	11,228.8	10,672.1	214.2
Property, plant and equipment — net	250,961.3	312,315.4	150,344.0	3,017.1	144,769.3	159,382.5	3,198.5
Right-of-use assets —net	—	—	166,517.3	3,341.7	166,915.4	165,220.3	3,315.7
Deferred exploration and development costs	699.0	705.5	710.8	14.3	707.9	712.8	14.3
Intangible assets and goodwill — net	2,594.2	72,613.4	72,771.3	1,460.4	72,666.8	72,795.3	1,460.9
Deferred tax assets	1,316.9	1,137.6	1,128.8	22.7	1,005.2	965.7	19.4
Other noncurrent assets — net	7,950.5	6,314.4	16,027.4	321.6	12,537.4	16,490.1	330.9
Total Noncurrent Assets	280,143.0	405,235.3	418,500.3	8,398.6	409,830.7	426,238.8	8,553.9
	350,173.0	493,850.2	557,119.0	11,180.4	532,978.9	587,112.8	11,782.3
LIABILITIES AND EQUITY							
Current Liabilities							
Loans payable	5,930.0	8,675.7	2,278.6	45.7	2,305.8	1,744.1	35.0
Accounts payable and accrued expenses	31,074.8	31,109.9	35,402.9	710.5	33,866.1	40,658.6	815.9
Lease liabilities — current portion	16,844.4	19,659.6	23,085.1	463.3	21,284.2	23,671.6	475.0
Income tax payable	151.9	310.9	214.8	4.3	308.0	438.2	8.8
Current maturities of long-term debt — net of debt issue costs	1,139.6	4,939.5	6,036.2	121.1	4,896.6	16,712.8	335.4
Total Current Liabilities	55,140.7	64,695.6	67,017.5	1,344.9	62,660.8	83,225.3	1,670.2
Noncurrent Liabilities							
Long-term debt — net of current maturities and debt issue costs	89,589.1	202,025.8	220,762.9	4,430.3	221,822.5	208,498.8	4,184.2
Deferred tax liabilities	7,324.1	8,180.1	13,197.7	264.9	10,446.7	16,079.5	322.7
Finance lease liabilities — net of current portion	137,949.3	122,347.4	101,117.6	2,029.3	110,679.3	89,682.9	1,799.8
Other noncurrent liabilities — net of current portion	404.3	843.6	1,598.6	32.1	862.7	2,294.0	46.0
Total Noncurrent Liabilities	235,266.8	333,396.9	336,676.7	6,756.5	343,811.2	316,555.1	6,352.7
Total Liabilities	290,407.5	398,092.5	403,694.2	8,101.4	406,472.0	399,780.4	8,022.9
Equity							
Capital stock	1,062.5	1,062.5	1,062.5	21.3	1,062.5	1,062.5	21.3
Additional paid-in capital	2,490.0	2,490.0	2,490.0	50.0	2,490.0	2,490.0	50.0
Senior Perpetual Capital Securities	—	—	65,885.6	1,322.2	25,802.6	96,058.2	1,927.7
Redeemable perpetual securities	—	32,751.6	32,751.6	657.3	32,751.6	32,751.6	657.3
Undated subordinated capital securities	26,933.6	26,933.6	13,823.5	277.4	26,933.6	13,823.5	277.4
Equity reserves	761.6	618.3	(2,568.4)	(51.5)	(24.9)	(3,032.0)	(60.8)
Retained earnings	28,517.8	31,901.7	38,987.4	782.4	36,504.4	43,172.8	866.4
	59,765.5	95,757.7	152,432.2	3,059.0	125,519.8	186,326.5	3,739.2
Non-controlling interest	—	—	992.6	19.9	987.2	1,005.9	20.2
Total Equity	59,765.5	95,757.7	153,424.8	3,079.0	126,506.9	187,332.4	3,759.4
	350,173.0	493,850.2	557,119.0	11,180.4	532,978.9	587,112.8	11,782.3

CONSOLIDATED STATEMENT OF CASH FLOWS DATA

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
			(in millions)				
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net cash flows provided by operating activities	21,845.3	15,259.2	29,959.0	601.2	13,430.3	13,160.5	264.1
Net cash flows provided by (used in) investing activities	(16,279.3)	(102,034.8)	(18,515.2)	(371.6)	(7,566.7)	(11,934.2)	(239.5)
Net cash flows provided by (used in) financing activities	1,526.7	86,529.3	40,282.5	808.4	29,051.1	12,841.6	257.7
Effect of exchange rate changes on cash and cash equivalents	71.3	102.8	(284.1)	(5.7)	(335.3)	(1,027.1)	(20.6)
Net increase (decrease) in cash and cash equivalents	7,164.0	(143.5)	51,442.3	1,032.4	34,579.4	13,040.9	261.7
Cash and cash equivalents at beginning of period	21,491.4	28,655.4	28,511.9	572.2	28,511.9	79,954.2	1,604.5
Cash and cash equivalents at end of period	28,655.4	28,511.9	79,954.2	1,604.5	63,091.2	92,995.1	1,866.2

ADDITIONAL FINANCIAL AND OPERATING DATA

The tables below provide summary additional financial and operating data for the periods indicated:

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(in millions unless indicated otherwise)						
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net income	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
EBITDA[(1)]	7,654.4	10,716.9	8,297.3	166.5	4,987.4	6,564.1	131.7
Net debt[(2)]	187,173.3	269,349.0	217,522.6	4,365.3	240,716.8	195,257.6	3,918.5
Net debt to Consolidated total equity[(3)]	2.97	2.80	1.44	1.44	1.92	1.07	1.07
Interest coverage ratio[(4)]	2.88	2.52	2.35	2.35	2.38	2.74	2.74

Notes:

(1) *Calculated as (a) net income (excluding items between any or all of the Company and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to PSALM. EBITDA should not be viewed in isolation or as an alternative to financial measures calculated in accordance with PFRS. See "Presentation of Financial Information" and "Non-PFRS Financial Measures."*

(2) *Net debt represents the consolidated debt of the Company and its subsidiaries — net of debt issue costs less cash and cash equivalents and including PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries' project finance debt. The ring-fenced subsidiaries are SCPC, SMCPC and PVEI.*

(3) *The Company maintains a Net debt to Consolidated total equity ratio of not more than 3.25x. The Net debt to Consolidated total equity ratio is computed by dividing Net debt over Consolidated total equity. Consolidated total equity is Equity as adjusted to exclude Retained earnings (deficit) of ring-fenced subsidiaries.*

(4) *The Company maintains an Interest coverage ratio of not less than 2.25x. The Interest coverage ratio is computed by dividing the most recent four quarterly period consolidated EBITDA (gross of PSALM payments and excluding ring-fenced subsidiaries) over the most recent four quarterly period consolidated interest expense (excluding ring-fenced subsidiaries).*

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
Electricity sold (**GWh**)	17,226.9	23,863.6	28,225.0	N/A	14,635.3	12,837.4	N/A
of which: bilateral offtake agreements	15,706.9	20,273.3	26,246.1	N/A	13,634.8	11,780.1	N/A
of which: WESM sales	1,520.0	3,590.3	1,978.9	N/A	1,000.5	1,057.3	N/A
Electricity bought on WESM (**GWh**)	683.8	1,144.1	1,972.9	N/A	759.0	946.1	N/A
Average realized/paid electricity prices (**₱/MWh**)							
For electricity sold under bilateral offtake agreements	4,926.4	5,388.5	4,806.6	96.5	4,933.4	4,606.7	92.4
For electricity sold on WESM	2,939.1	3,024.8	4,135.2	83.0	4,916.2	2,650.8	53.2
For electricity purchased from WESM	4,753.0	4,342.7	5,712.7	114.6	7,800.5	2,851.0	57.2

CALCULATION OF EBITDA

The following table presents a reconciliation of EBITDA[1] to net income for each of the periods indicated.

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(in millions)						
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net income[1]	9,215.1	5,094.5	9,539.2	191.4	5,466.6	7,257.0	145.6
Add:							
Income tax expense	5,352.4	4,638.2	7,218.9	144.9	3,656.8	4,113.9	82.6
Finance cost	11,747.7	14,919.7	15,558.5	312.2	8,455.2	7,187.9	144.2
Interest income	(368.5)	(463.5)	(1,428.3)	(28.7)	(595.9)	(673.4)	(13.5)
Depreciation	5,607.7	6,898.6	6,959.2	139.7	3,481.7	3,509.8	70.4
Less:							
Foreign exchange gains (loss)	(975.0)	(5,345.0)	2,852.4	57.2	2,106.0	325.4	6.5
Aggregate fixed payments made to PSALM[2]	24,875.0	25,715.6	26,697.8	535.8	13,371.0	14,505.7	291.1
Gain on Sale of Investment	—	—	—	—	—	—	—
EBITDA	7,654.4	10,716.9	8,297.3	166.5	4,987.4	6,564.1	131.7

Notes:

(1) *Amounts exclude items attributable to ring-fenced subsidiaries. Subsidiaries with project debts were nominated as ring-fenced subsidiaries. If the amounts from the ring-fenced subsidiaries were to be included, the EBITDA would amount to ₱9,013.8 million, ₱18,108.2 million and ₱ 20,149.0 million (U.S.$404.4 million) for the years ended December 31, 2017, December 31, 2018 and December 31, 2019, and ₱10,046.1 million and ₱12,279.1 million (U.S.$246.4 million) for the six months ended June 30, 2019 and June 30, 2020, respectively.*

(2) *Aggregate fixed payments made to PSALM is reflected in the Statement of Cash Flows as Payments of Finance Lease Liabilities.*

SUMMARY OF THE OFFERING

The following is a brief summary of the offering. For a more complete description of the terms of the Securities, see "Terms and Conditions of the Securities." Capitalized terms not otherwise defined herein shall have the meanings set forth under "Terms and Conditions of the Securities."

Issuer . . . . SMC Global Power Holdings Corp., a company incorporated with limited liability under the laws of the Republic of the Philippines.

Securities Offered . . . . U.S.$400,000,000 senior perpetual capital securities.

Status of the Securities . . . . The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The claims of the holders, in respect of the Securities, including in respect of any claim to Arrears in Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank at least *pari passu* with each other and with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer.

No Set-off . . . . To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

Initial Rate of Distribution . . . . 7.00% per annum plus any increase pursuant to Condition 4.4 (*Increase in Rate of Distribution*).

Issue Price 100.00%

Form and Denomination . . . . The Securities are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Distributions . . . . Subject to Condition 4.4 (*Increase in Rate of Distribution*) and Condition 4.5 (*Optional Deferral of Distributions*), the Securities will confer a right to receive distributions ("**Distributions**"):

(a) from the period commencing on (and including) the Issue Date to (but excluding) October 21, 2025 (the "**Step Up Date**"), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrears on April 21 and October 21 of each year (each a "**Distribution Payment Date**") commencing on April 21, 2021.

"**Reset Date**" means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

Increase in Rate of Distribution	2.50% per annum.
Optional Deferral of Distributions . . .	The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date, a Compulsory Distribution Payment Event has occurred (the "**Deferral Election Event**"). Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a). The Issuer will notify the Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the "**Deferral Election Notice**"). Deferral of a Distribution pursuant to Condition 4.5(a) (*Optional Deferral of Distributions*) will not constitute a default by the Issuer or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose. "**Compulsory Distribution Payment Event**" means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.
Restrictions in the case of Deferral . . .	If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the

Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

(a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration (b) any of the Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a redemption, reduction, cancellation, buy-back or acquisition in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 (*Restrictions in the case of Deferral*) shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

Payments of Arrears of Distribution .... The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.

"**Payment Reference Date**" means the date which is the earliest of:

(a) the date on which the Securities are redeemed in accordance with Condition 5;

(b) the date on which an order is made for the Winding-Up of the Issuer; and

(c) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event.

Expected Closing Date	October 21, 2020
Redemption	The Securities have no fixed redemption date. Unless previously redeemed or purchased and cancelled in accordance with the provisions of Condition 5 (without prejudice to Condition 10), the Securities will have no maturity date, unless the Issuer elects to retain a fixed corporate term under its articles of incorporation. If the Issuer elects to have a fixed corporate term under its articles of incorporation, the term of the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its articles of incorporation.
Redemption at the Option of the Issuer	Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on: (a) the Step Up Date; or (b) any Distribution Payment Date falling after the Step Up Date, in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Early Redemption due to a Gross-up Event	If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities. Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee: (a) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and (b) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

For the avoidance of doubt, a change of jurisdiction or domicile of the Issuer shall not be considered a reasonable measure.

"**Gross-up Event**" means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after October 14, 2020, the Issuer has or will become obliged to pay Additional Amounts; provided that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided further that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after October 14, 2020, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 30%.

Early Redemption due to a Change of Control Event . . . . If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

A "**Change of Control Event**" means Permitted Holders ceasing to, whether directly or indirectly, have control in respect of more than 50% of the outstanding Voting Stock of the Issuer.

"**Permitted Holders**" mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, and (c) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a) and (b) above.

Early Redemption due to a Reference Indebtedness Default Event . . . . If a Reference Indebtedness Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to Securityholders in accordance with Condition 12.1 (Notices to Securityholders).

"**Reference Indebtedness Default Event**" means an event of default occurs pursuant to Section 9.1(b) (*Events of Default*) of the trust agreement in respect of the Issuer's outstanding ₱3,609,020,000 6.625% PHP-denominated 10-year Series F Bonds due 2027 (ISIN: PHY806B2AJ53) (the "**Initial Reference Notes**"), or any debt security in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease or discharge the Initial Reference Notes prior to their maturity (the "**Refinancing Securities**"), as a result of the Issuer's default in, non-compliance with or non-performance of the Initial Reference Notes or of the Refinancing Securities, as the case may be, as such Initial Reference Notes or Refinancing Securities are amended from time to time in accordance with the terms and conditions of the Initial Reference Notes or of the Refinancing Securities, as the case may be.

Early Redemption due to an Accounting Event . . . . If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

An "**Accounting Event**" means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

Redemption of Securities in the case of Minimal Outstanding Amounts . . . . In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part):

(a) at any time prior to the Step Up Date, at the Special Redemption Price; or

(b) on or at any time after the Step Up Date, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

Taxation and Additional Amounts . . . All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer, the Issuer shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except in certain circumstances. See Condition 7 (*Taxation and Gross-up*).

Limited Rights to Institute Proceedings . . . . Notwithstanding any of the provisions in Condition 10 (*Non-Payment*), the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5 (*Optional Deferral of Distributions*). In addition, nothing in Condition 10 (*Non-Payment*), including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

Proceedings for Winding-Up . . . . If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 (*Entitlement of Trustee*) and, subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

Substitution or Modification . . . . The Trustee may, without the consent of the Securityholders, agree with the Issuer to:

(a) the substitution in place of the Issuer (or of any previous substitute under Condition 13 (*Substitution or Modification to Remedy Gross-Up Event or Accounting Event*)) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or

(b) the modification of the Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that:

(i) the Securities are unconditionally and irrevocably guaranteed by the Issuer;

	(ii) the Issuer procures, at its own cost, the delivery of a legal opinion(s) as to English and any other relevant law, addressed to the Trustee, dated the date of such substitution of the Issuer or modification of these Conditions, as the case may be, and in a form acceptable to the Trustee from legal advisers acceptable to the Trustee; and (iii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification.
Further Issues	The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities (which will be constituted by a deed supplemental to the Trust Deed) or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.
Listing and Trading	Approval-in-principle has been obtained from the SGX-ST for the listing of, and permission to deal in, the Securities by way of debt issues to professional investors only. The Securities will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require. So long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate representing the Securities is exchanged for definitive certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.
Use of Proceeds	The net proceeds from the issue of the Securities, which will be approximately U.S.$397.6 million (after the deduction of commissions), will be applied by the Company for capital expenditures and investments in liquified natural gas facilities and related assets, refinancing of expiring commitments of the Company whether debt or perpetual securities and for general corporate purposes.
Selling Restrictions	The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Securities may be sold in other jurisdictions (including the United Kingdom, Singapore, Hong Kong, Japan and the Philippines) only in compliance with applicable laws and regulations. See "*Subscription and Sale*."
ISIN	XS2239056174
Common Code	223905617

Governing Law	English law.
Trustee	DB Trustees (Hong Kong) Limited.
Principal Paying Agent, Calculation Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Registrar	Deutsche Bank AG, Hong Kong Branch.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
LEI	549300HBCE80QXKII590

An investment in the Securities involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may, at their own cost, request publicly available information on SMC Global Power from the SEC. Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Offering Circular, including the audited financial statements of SMC Global Power and notes relating thereto included in this Offering Circular, before making any investment decision relating to the Securities. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to SMC Global Power or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition and prospects of SMC Global Power and prospective investors may lose all or part of their investment.

RISKS RELATING TO SMC GLOBAL POWER

Increased competition in the Philippine power industry.

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC owned and controlled power generation assets, the establishment of the WESM, the start of the Retail Competition and Open Access ("**RCOA**"), implementation of mandatory competitive selection process ("**CSP**") for distribution utilities, and the implementation of the green energy option, which allows contestable customers to directly contract with a renewable energy supplier. Further, Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and may have more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. These competitors may therefore be more successful than SMC Global Power in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities, or in successfully bidding at CSPs conducted by distribution utilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. In addition, other sources for the provision of ancillary services may arise, including technological developments or establishment of new market regimes, which may increase competition and reduce prevailing prices for these services. Moreover, a decline in oil and gas prices, which reduces the cost of producing electricity from fossil fuels, could make energy storage solutions integrated with renewable energy sources less competitive against other solutions including conventional generation. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to a downward adjustment of tariffs, and could adversely affect the business, financial performance and results of operations of SMC Global Power. To the extent that distribution utilities or industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakers through its generation facilities would be adversely affected.

The COVID-19 pandemic, or the future outbreak of any other highly infectious or contagious diseases, could materially and adversely affect the operations, financial condition, and cash flows of the Company's power generation facilities and other businesses. Further, the continuing impacts of the COVID-19 pandemic are highly unpredictable and uncertain and has and will continue to cause disruptions in the Philippine and global economy and financial markets, and the Company's financial performance, among others.

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have impacted and may continue to impact the Company's businesses. While the Company has taken numerous steps to mitigate the impact of the pandemic on its results of operations, there can be no assurance that these efforts will be successful. As of the date of this Offering Circular, certain areas continue to be placed under ECQ or other levels of community quarantine and there is no assurance that areas that are or were currently under GCQ or MGCQ will not be put under more stringent community quarantine in the future. For example, Metro Manila was again placed under MECQ for the period from August 4 to August 18, 2020, during which public transport was suspended, only essential businesses are permitted to continue normal operations while other industries may operate at 50% of capacity or not at all. As of the date of this Offering Circular, Metro Manila is under GCQ.

Due to numerous uncertainties and factors beyond its control, the Company is unable to predict the impact that COVID-19 will have going forward on its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there is a "second wave" or "third wave" or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;

- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures as well as measures taken by the Company's regulators;

- restrictions on operations up to and including complete or partial closure of offices, plants and other facilities;

- economic measures, fiscal policy changes, or additional measures that have not yet been effected;

- the health of, and effect of the pandemic on, the Company's personnel and the Company's ability to maintain staffing needs to effectively operate its power generation portfolio;

- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;

- impacts — financial, operational or otherwise — on the Company's supply chain, including manufacturers, suppliers and third party contractors, particularly for ongoing maintenance and construction of certain plants and facilities;

- volatility in the credit and financial markets during and after the pandemic;

- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or the Company's actions in response thereto;

- the pace of recovery when the pandemic subsides; and

- the long-term impact of the pandemic on the Company's businesses.

The above factors and uncertainties, or others of which the Company is not currently aware, may result in adverse impacts to the Company's businesses, results of operations, cash flows, and financial condition due to, among other factors:

- decline in customer demand as a result of general decline in business activity;

- further destabilization of the markets and decline in business activity negatively impacting customers' ability to pay for the Company's services when due or at all, including downstream impacts, whereby the utilities' customers are unable to pay monthly bills or receive a moratorium from payment obligations, resulting in inability on the part of utilities to make payments for power supplied by our generation companies;

- decline in business activity causing our industrial customers to experience declining revenues and liquidity difficulties that impede their ability to pay for power supplied by our generation companies;

- government moratoriums or other regulatory or legislative actions that limit changes in pricing, delay or suspend customers' payment obligations or permit extended payment terms applicable to customers of our utilities or to our offtakers under power purchase agreements. For example, the ERC allowed residential end-users to defer payments of their electric bills due to DUs such as Meralco during the ECQ period and amortize such payments over a period of up to four months. Accordingly, Meralco was permitted to defer the corresponding payments to its power suppliers, including SMEC and SPPC, for a similar period;

- further decline in spot electricity prices;

- delays or inability to access, transport and deliver fuel to our generation facilities due to restrictions on business operations or other factors affecting us and our third-party suppliers;

- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;

- further delays to our construction projects, and the timing of the completion of ongoing projects;

- delay or inability to receive the necessary permits for our development projects due to delays or shutdowns of government operations;

- increased volatility in foreign exchange and commodity markets;

- deterioration of economic conditions, demand and other related factors resulting in impairments to goodwill or long-lived assets; and

- delay or inability in obtaining regulatory actions and outcomes that could be material to our business.

In particular, while it would be premature to predict the overall impact of the pandemic, the Company expects continuing adverse impacts beyond the second quarter of 2020. In the last three years, system demand in the Luzon grid has been growing 5% to 7% year-on-year based on WESM data and actual growth prior to the implementation of the ECQ was in line with projections and over 2019 levels for the period, with demand originally expected to reach 11,600 MW during April, the peak of summer in the Philippines. However, the imposition of ECQ reduced system demand in the Luzon grid by approximately 25% to 30% as industrial activity was at a standstill and peak demand in Luzon dropped to 8,200 MW during the period, with the remaining demand representing mainly residential customers through the DUs.

In view of the number of COVID-19 cases continuing to increase, particularly in Metro Manila and neighboring cities, and with the MECQ once again imposed from August 4 up to August 18, 2020, system demand in the Luzon grid is expected to decrease again by about 10% to 15% compared to the same period last year, tracking the drop in demand when the MECQ was first implemented from May 15 to 31, 2020. Even if the Government has converted the NCR and other key cities to GCQ status starting August 18, 2020, the Company is expecting a gradual recovery in system demand which may still be lower by at least 8% to 10% for the same period in 2019. In addition, lower consumer spending and cooler weather are both expected to put further downward pressure on system demand in the Luzon grid. In the ensuing weeks up to October 2020, system demand in the Luzon grid is expected to be at 8,500 MW to 9,000 MW. System demand in the Luzon grid could increase again in October to over 10,000 MW but should revert to 8,500MW levels by December, consistent with historical seasonality trends. WESM prices are expected to be low but stable, with average prices of ₱1.9/KWh to ₱2.6/KWh for the second half of 2020. In the event of an extraordinary number of unplanned outages (e.g., outages of 1,000 MW to 2,000 MW), there may be erratic spikes in WESM prices.

As of June 30, 2020, the Company has outstanding net trade receivables inclusive of VAT amounting to ₱27.6 billion. Of this amount, ₱3.69 billion is overdue driven primarily by COVID-19 related concessions negotiated with customers and/or reprieves allowed by the DOE and ERC. These outstanding amounts are primarily accrued from credit-worthy distribution utilities such as Meralco, and various industrial customers, and are expected to be collected within the next 12 months.

On September 11, 2020, President Rodrigo Duterte signed into law Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act" ("**Bayanihan II**"), which extends the emergency powers of the President granted by its predecessor law, Republic Act No. 111469, otherwise known as the "Bayanihan to Heal as One Act" which ceased to be effective on June 25, 2020. Section 4 of the Bayanihan II authorizes the President to exercise powers necessary and proper to undertake and implement COVID-19 response and recovery measures such as directing institutions providing electric, water, telecommunications, and other similar utilities to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ, without incurring interests, penalties, and other charges; provided that after the grace period, unpaid residential; micro-, small and medium-sized enterprises; and cooperative utility bills may be settled on a staggered basis payable in not less than 3 monthly installments, subject to the procedural requirements of the concerned regulatory agencies in the imposition of such installment plan without interests, penalties and other charges. In case of the electric power sector, the minimum 30-day grace period and staggered payment without interests, penalties and other charges will apply to all payments due within the period of community quarantine in the entire electric power value chain to include generation companies, transmission utility and distribution utilities.

The extent to which the COVID-19 pandemic will continue to impact the Company will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects the business and financial results of the Company, it may also have the effect of heightening many of the other risks described in this Offering Circular.

Suspension of issuance and renewal of RES licenses.

In June 2015, the DOE through its Department Circular ("**DC**") 2015-06-0010 enjoined the ERC to immediately issue the supporting guidelines including the revised rules for issuance of RES licenses. In compliance with the department circular, the ERC issued the following resolutions to govern the issuance of new RES licenses and renewal of existing RES licenses and the registration of retail customers:

- Resolution No. 5, Series of 2016, entitled "A Resolution Adopting the 2016 Rules Governing the Issuances of the Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefore" (the "**RES License Guidelines**")

- Resolution No. 10, Series of 2016, entitled "Adopting the Revised Rules for Contestability"

- Resolution No. 11, Series of 2016, entitled "Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market"

- Resolution No. 28, Series of 2016, entitled "Revised Timeframe for Mandatory Contestability"

However, in February 2017, the Philippine Supreme Court, acting on a petition filed by certain entities, issued a temporary restraining order on the implementation of the foregoing ERC resolutions. As of the date hereof, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA. In 2019, the DOE issued DC2019-07-0011, amending various issuances on the implementation of the RCOA. DC2019-07-0011 provides that registration of contestable customers as trading participant in the WESM shall be on a voluntary basis and that contestable customers shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

While certain subsidiaries of SMC Global Power have valid and existing RES licenses expiring in 2021, the ability of SMC Global Power to directly contract with contestable customers may be limited if prior to the expiry of such RES licenses (a) the temporary restraining order on the RES License Guidelines is not lifted, or (b) an alternative regulatory framework governing the retail sale of electricity is not put in place. Such limitation on the ability of SMC Global Power to directly contract with contestable customers could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Disruptions and fluctuations in fuel supply.

The operations of the Sual Power Plant, Ilijan Power Plant, Masinloc Power Plant, Limay Greenfield Power Plant and Davao Greenfield Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirement of the Sual Power Plant, Masinloc Power Plant, Limay Greenfield Power Plant and Davao Greenfield Power Plant. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants and, subject to regulatory approval, is able to pass on the fuel cost to its customers (particularly for distribution utilities and electric cooperatives). In the case of certain power supply agreements ("**PSAs**") covering an aggregate capacity of 1,290 MW starting 2020 and entered into by the Company, through its subsidiaries, with Meralco as a result of the latter's CSP conducted last September 2019 (see "*Business — Competitive Strengths and Business Strategies — Competitive Strengths — Stable and Predictable Cash Flows*"), there are fixed price escalation mechanisms rather than tariff adjustment based on current fuel prices. Consequently, the Company may no longer pass-through the impact of fuel price fluctuations and may have positive benefits or negative exposures should fuel prices increase or decrease, respectively.

There is no assurance that there will not be any interruption or disruption in, or change in terms of, the fuel supplies to these power plants, or that there will be sufficient fuel in the open market at competitive prices or sufficient transportation capacity available to ensure that these power plants receive sufficient fuel supplies required for their operations on a timely basis or at all. There is also no assurance that the Company, through its subsidiaries, will be able to purchase all of its required fuel supplies from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants.

For example, the Ilijan Power Plant sources natural gas for its operations from the Malampaya gas facility in Palawan ("**Malampaya**"). According to the DOE, Malampaya's natural gas output is estimated to decline substantially by 2022 as the Malampaya gas supply is depleted. SMC Global Power is well placed to secure access to alternative sources of fuel, and has executed a binding term sheet covering the use of a hybrid terminal composed of onshore regasification units and onshore and offshore storage technologies, to be constructed in Ilijan, Batangas and which is expected to allow the Company to receive, store, and process liquefied natural gas ("**LNG**") from the global market. Alternatively, the Ilijan Power Plant may also be reconfigured to be a diesel or an LNG-type facility in the future. Reduced supply of high-grade coal may also cause disruptions in the Company's fuel supply. SMC Global Power has invested in circulating fluidized bed ("**CFB**") or supercritical power plants (for the Limay Greenfield Power Plant, Davao Greenfield Power Plant, and Unit 3 of the Masinloc Power Plant) that can use low-grade coal and has retrofitted its existing pulverized coal ("**PC**") power plants

(Masinloc Units 1 and 2) to use low-grade coal, which is also less expensive and relatively more abundant compared to high-grade coal (i.e. coal of 6,000 kcal upwards). There can be no assurance that the Company will be able to obtain the quality of coal in such quantities that it requires for its operations.

Such factors, which may include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants or incur significant costs to source replacement power or to reconfigure its plants, which could have material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Reliance on Independent Power Producers for the operation and maintenance of the IPPA Power Plants.

Power generation involves the use of highly complex machinery and processes and the success of SMC Global Power depends on the effective maintenance of equipment for its power generation assets. IPPs associated with the respective IPPA Power Plants are responsible for the operation and maintenance of their respective IPPA Power Plants.

Although the energy conversion agreement ("**ECA**") for Sual, the Ilijan ECA and the San Roque ECA contain bonus and penalty provisions, and the Company monitors the IPPs' adherence to the minimum operating protocols specified in the IPPA and ECAs, there is still a risk that the IPPs will fail to satisfactorily perform their respective operations and maintenance obligations. Any failure on the part of such IPPs to properly operate and/or adequately maintain their respective power plants could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

In addition, if SMC Global Power, through its subsidiaries, fails to generate or deliver electricity beyond contractually agreed periods due to the failure of the IPPs to operate and maintain the power facilities, the counterparties of SMC Global Power in its power supply contracts ("**PSCs**") may have a right to terminate those contracts for outages beyond applicable outage allowances in the PSCs, and replacement contracts may not be entered into on comparable terms or at all. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

Market limitations under the Electric Power Industry Reform Act of 2001 ("EPIRA").

Based on the total installed generating capacities reported in ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% market share of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid, in each case as of June 30, 2020. The EPIRA limits the market share of a participant to 30% per grid and 25% of the National Grid by installed capacity. While SMC Global Power is currently within its market share cap even taking into account the greenfield power plants under construction, it may not receive permission to increase its capacity and market share further if this would result in exceeding the permitted capacity or market share prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business prospects of SMC Global Power.

Development of greenfield power projects and expansion projects.

The development of greenfield power projects and expansion projects of existing power plants involves substantial risks that could give rise to delays, cost overruns or unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMC Global Power.

Project risks could emanate from various sources such as poor project planning, execution and contractor/ subcontractor issues. If not addressed in a timely manner, these issues may negatively impact the project which would ultimately affect the Company's financial condition and results of operations, such as revenue loss resulting from delay in commercial operations. For example, under the Company's EPC contract for Unit 3 of the

Masinloc Power Plant, commercial operations were scheduled to begin in April 2019. As a result of various delays incurred by the EPC contractor, Unit 3 has completed commissioning and commenced commercial operations on September 26, 2020. In view of the delay in the commercial operations of Unit 3, Posco Engineering & Construction ("**Posco**") has offered the Company a reasonable amount as settlement for liquidated damages, subject to certain conditions, which the Company has accepted.

Further, any delay in the receipt of the relevant permits will also delay the completion of a project. Any of these project risks could have a material adverse effect on the business, financial condition, results of operations, and future growth prospects of the Company.

Adverse effect of WESM price fluctuations.

From the time the WESM for Luzon began operating in June 2006, market prices for electric power have fluctuated substantially. Unlike many other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Long-term and short-term power prices may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

- increases and decreases in generation capacity in the markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation power plants or expansion of existing power plants or additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;
- electric supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and, if warranted under applicable circumstances, adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and environmental regulations and legislation.

These factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

On March 3, 2014, the ERC issued an order (the "**ERC Order**") declaring the prices in the WESM for the November and December 2013 billing months, as null and void, and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. SMEC, SPPC, SPDC, MPPCL and SPI filed a request with the ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order. On June 26, 2014, SMEC, SPPC, SPDC, and SPI filed with the Court of Appeals a Petition for Review of these orders. On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

In the event that the prices initially set by the WESM are upheld, then the relevant subsidiaries of the Company may file a claim for refund with PEMC for an amount of up to ₱2,322 million, plus interest. For further information, see "*Business — Legal Proceedings — ERC Order voiding WESM prices*."

Non-renewal of or non-compliance with offtake agreements.

SMC Global Power, through its subsidiaries, has offtake agreements with various distribution utilities, electric cooperatives and large industrial and commercial users. In respect of the IPPA Power Plants, some offtake agreements will expire before the termination of the applicable IPPA Agreement, although they may be renewed by mutual agreement of the parties. The IPPA Agreements provide that the amounts of payment obligations of SMC Global Power will increase over time. While SMC Global Power intends to renew the offtake agreements upon expiration to provide stable and predictable revenue streams, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power.

In particular, sales to Meralco under the relevant PSA in relation to the Ilijan Power Plant, Sual Power Plant and Masinloc Power Plant comprised approximately 43% of the Company's total revenue for the six months ended June 30, 2020. The Ilijan Power Plant and Sual Power Plant are currently providing Meralco with power pursuant to the recent CSPs conducted by Meralco, following the expiration in December 2019 of previous PSAs with Meralco.

In September 2019, Meralco conducted a CSP for its power supply, in accordance with the requirements under DOE Circular No. DC2018-02-0003 (the "**DOE CSP Policy**"). SPPC was awarded two offtake contracts to supply an aggregate of 960 MW from the Ilijan Power Plant. The first contract is for the supply of 670 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029 and the second contract is for the supply of 290 MW mid-merit power requirements for a period of five years from December 26, 2019 until December 25, 2024. In addition, SMEC was also awarded a contract to supply 330 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029 from the Sual Power Plant. The three contracts have been executed between Meralco and the relevant IPPAs (the "**2019 Meralco PSCs**"). The ERC granted SMEC, SPPC and Meralco provisional authority to implement the respective 2019 Meralco PSCs through its orders dated December 10, 2019. SMEC and SPPC filed motions for reconsideration with the ERC on the ground that the applicable rate for the provisional implementation of the respective 2019 Meralco PSCs should be in accordance with the rates, rate structures, escalation and corresponding plant capacity factors awarded and finalized during the CSP. The motions for reconsideration were subsequently granted by the ERC in its orders dated June 16, 2020.

The MPPCL-Meralco PSA (260 MW baseload), originally expiring in December 2019 was agreed to be extended up to 2022, subject to ERC approval. However, in consideration of the Supreme Court decision on CSP which clarified the regulatory policies on PSAs, MPPCL has opted instead to negotiate with Meralco for an extension of the PSA for one year, or until December 2020, as provided for in the contract. Currently, the one-year renewal is pending ERC approval and the Company expects to implement and commence supply within 2020.

When the current offtake agreements with Meralco expire or are otherwise renegotiated, they may be renewed for lower electricity volumes than in the past or on different terms, including under different pricing terms. In addition, there can be no assurance that Meralco and other offtakers will be able to meet their future payment obligations under their agreements with SMC Global Power. For the Company's greenfield power plants, there is no assurance that the Company, through its subsidiaries, will be awarded contracts pursuant to any CSP conducted by Meralco or other distribution utilities or electric cooperatives, or will successfully negotiate with various contestable customers or RES.

The business, cash flows, earnings, results of operations and financial condition of SMC Global Power could be materially and adversely affected if Meralco does not renew its bilateral offtake agreements with subsidiaries of SMC Global Power under favorable terms or at all or if Meralco and other offtakers are unable to meet their payment obligations under existing agreements, and SMC Global Power is unable to find new customers to replace Meralco and other offtakers.

Operating capacities of its power portfolio.

The administration of the output of the power generation plants involves significant risks, including:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits and approvals;
- opposition from local communities and special interest groups; and
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage and plant destruction.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate sales derived by SMC Global Power from its power generation assets. While the IPPA Agreements of the Company provide certain reliefs in the event the IPPA Power Plants cannot produce or dispatch electricity, if any of the power generation assets of the Company is unable to generate or deliver electricity to customers for an extended period of time which may be due to the aforementioned risks, its customers may be exempt from making certain payments so long as any such events continue. In addition, if the subsidiaries of SMC Global Power fail to generate or deliver electricity beyond the contractually agreed outage periods, its counterparts in its PSCs may have a right to terminate those contracts, and replacement contracts may not have been entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

Operating and other risks leading to network failures, equipment breakdowns, planned or unplanned outages.

Power generation is vulnerable to human error in operation, equipment failure, catastrophic events, natural disasters, sabotage, terrorist attacks or other events which can cause service interruptions, network failures, breakdowns or unplanned outages. There is no assurance that accidents will not occur with the Company's power plants or that the preventative measures taken by the Company will be fully effective in all cases, particularly in relation to external events that are not within its control. Moreover, any loss from such events may not be recoverable under the Company's insurance policies. The Company's income and cash flows will be adversely affected by any disruption of operations of its plants due to any of the foregoing risks. Any unplanned plant shutdowns for an extended period of time will have a material adverse effect on the Company's ability to sell power and the Company's results of operations could suffer. For example, in 2017 the Sual Power Plant Unit 2 experienced an outage for 158 days due to transformer failure. In the event of a service disruption, the Company would typically seek to purchase replacement power, which may be at a significantly greater cost than power generated by it or than it is able to recover. SMC Global Power is also entitled to reduction in the IPPA payments to PSALM for fixed and generation fees of the plant that will compensate it for any loss in margins from prolonged outages. Any of these factors may be beyond the Company's control, and their occurrences could have a material adverse effect on the Company's business, financial condition or results of operations.

Insurance coverage for generation plants.

The IPPs of the IPPA Power Plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance coverage. The IPPA of these IPPA Power Plants, namely SMEC, SPDC and SPPC, however, are not beneficiaries of any of these insurance policies. These IPPAs have no business interruption insurance coverage and are therefore uninsured for liabilities or any direct or indirect costs and losses which may be incurred, as a result of any business interruption that their respective IPPA Power Plant may experience. SMC Global Power believes that there is no business interruption insurance available for the IPPA business model under which its IPPA- subsidiaries are currently operating. Accordingly, any uninsured liabilities or direct or indirect losses, including any third-party claims that result from an interruption to the business of these IPPAs could have a material adverse effect on its financial condition and results of operations.

For the power plants of SMC Global Power, SCPC, SMCPC and MPPCL have secured necessary insurance for their respective power plants, which cover industrial all risks, business interruption, marine cargo insurance, sabotage and terrorism, physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. The existing business interruption insurance policies of these entities however do not cover any declines in production or adverse publicity that SCPC, SMCPC, or MPPCL may suffer as well as any significant resource that SCPC, SMCPC, or MPPCL may invest to address such losses. Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have a material adverse effect on their businesses, financial condition and results of operations.

Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have a material adverse effect on their businesses, financial condition and results of operations.

No direct contractual and operational relationship.

SMC Global Power is dependent on the operators of the IPPA Power Plants to generate power from the IPPA Power Plants, and for the IPPs to comply with their contractual obligations to NPC under their IPP Agreements. SMC Global Power does not have a direct contractual relationship with the IPPs and cannot directly enforce the IPP Agreements against the IPPs. Failure by an IPP to comply with its obligations under its IPP Agreement may significantly reduce or eliminate power generation volumes or increase costs, thereby decreasing or eliminating revenues that the IPPA subsidiaries of SMC Global Power can derive from selling the power generated by the IPPA Power Plants. Any claims for damages for breach, or other entitlement, benefit or relief under the IPPA Agreement arising from the breach, by the IPP, of its IPP Agreement obligations must be claimed by SMC Global Power against PSALM through specified claim mechanisms. The IPPA Agreements do not permit set-off of claims, and the IPPA subsidiaries of SMC Global Power are only entitled to payment of their claim after PSALM has received payment from the IPP of its corresponding claim. Accordingly, the IPPA subsidiaries of SMC Global Power bear the risks associated with the lack of direct recourse against the IPPs, delays in the enforcement of their claims and other risks related to pursuing claims or legal proceedings against a state-owned entity such as PSALM. Any of these factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Foreign exchange risk.

While currently, most of the offtake agreements of SMC Global Power allow adjustments for foreign exchange rate fluctuations, SMC Global Power remains subject to foreign exchange risk. A substantial amount of revenue from sales of power by SMC Global Power is denominated in Philippine Pesos, while a portion of its expenses and obligations are denominated in U.S. dollars. The scheduled payment obligations to PSALM pursuant to the IPPA Agreements of the IPPA subsidiaries with PSALM are denominated in both U.S. dollars and Pesos. The proportion of U.S. dollars to Pesos payable under the IPPA Agreements is approximately 50% at the exchange rates prevailing as of the dates of the respective IPPA Agreements. SMC Global Power, through its subsidiaries, also purchases coal as fuel for the Sual Power Plant and its greenfield power projects using U.S. dollars. In addition, a significant portion of the capital expenditures required for its greenfield power projects are denominated in U.S. dollars.

In March 2018, SMC Global Power obtained U.S.$1,200 million term facilities from various foreign financial institutions for the acquisition of the Masinloc Power Plant, of which U.S.$700 million remains outstanding as of June 30, 2020.

In May 2014 and August 2015, SMC Global Power issued undated subordinated capital securities amounting to U.S.$300 million for each issuance; the U.S.$300 million undated subordinated capital securities issued in May 2014 were redeemed on the relevant step up date of November 7, 2019. In addition, the Company issued redeemable perpetual securities amounting to U.S.$650 million for the acquisition of the Masinloc Power Plant in March 2018. On April 25, 2019, the Company issued U.S.$500 million senior perpetual capital securities. On July 3, 2019, the Company issued an additional U.S.$300 million senior perpetual capital securities, which were consolidated into and form a single series with the U.S.$500 million senior perpetual capital securities issued on April 25, 2019. On November 5, 2019, the Company issued an additional U.S.$500 million senior perpetual capital securities. On January 21, 2020, the Company issued an additional U.S.$600 million senior perpetual capital securities.

In addition, the PSAs entered into with Meralco as a result of the latter's CSP conducted in September 2019 (see "*Business — Competitive Strengths and Business Strategies — Competitive Strengths — Stable and Predictable Cash Flows*"), with an aggregate capacity of 1,290 MW starting 2020 have fixed price escalation mechanisms rather than tariff adjustment based on current foreign exchange rates. Consequently, the Company may no longer pass-through the impact of foreign exchange fluctuations and may have positive benefits or negative exposures should the Peso appreciate or depreciate, respectively.

A depreciation of the Peso, particularly with respect to the U.S. dollar, increases the Peso equivalent value of the foreign currency-denominated costs and obligations of SMC Global Power. This could adversely affect the results of operations of SMC Global Power and its ability to service its foreign currency-denominated liabilities.

SMC Global Power actively evaluates combinations of natural hedges, such as holding U.S. dollar-denominated assets and liabilities and foreign exchange adjustments in the pricing for certain offtake contracts and derivative instruments to manage its exchange rate risk exposure. The Company has entered into derivative contracts covering its net foreign currency denominated monetary liabilities. As a general policy, the Company may hedge up to 50% of its exposure and subject to management approval, for more than 50% of its exposure if necessary. Less than 20% of the net foreign currency-denominated monetary liabilities of the Company has been hedged as of June 30, 2020. The Company also considers redenomination of U.S. dollar-denominated obligations to Philippine Peso to minimize exposure to foreign exchange fluctuations. Nonetheless, there can be no assurance that the Peso will not depreciate significantly against the U.S. dollar or other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Philippine economy or the financial condition of SMC Global Power.

Variations in hydrological conditions and irrigation requirements.

Hydroelectric generation is dependent on the amount and location of rainfall and river flows, which vary widely from quarter to quarter and from year to year. NPC owns and operates the dam and the dam-related facilities of the San Roque Power Plant and has obtained a water permit allowing it to use the water flow from the Agno River to generate power from the San Roque Power Plant with an allowable volume dictated by downstream irrigation requirements set by the National Irrigation Administration ("**NIA**").

The facilities of AHEPP are located within the Angat Watershed Reservation, which is managed by and is under the jurisdiction of NPC. NPC was issued a water permit dated November 28, 1979 by then National Water

Resources Council pursuant to which NPC has authority to extract water from the Angat River for power generation purposes. In a resolution dated April 4, 2016, National Water Resources Board ("**NWRB**") granted KWPP Holdings Corporation's petition for the transfer of the said water permit to itself and authorized its lease to AHC. The water discharged by the AHEPP is used for the following purposes: (i) the water outflow of the three Auxiliary Units of 6 MW capacity each (each an "**Auxiliary Unit**" or collectively, "**Auxiliary Units**") flows to the Ipo Dam and is conveyed by Metropolitan Waterworks and Sewerage System ("**MWSS**") to Metro Manila for domestic use; and (ii) the water outflow of the four Main Units of 50 MW capacity each (each a "**Main Unit**" or collectively, "**Main Units**") flows to the Bustos Dam and is conveyed by NIA to the province of Bulacan for irrigation purposes.

The levels of hydroelectric production can therefore vary from period to period depending on the water levels in the reservoir and downstream irrigation and water supply requirements. In years of less favorable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoir has low water levels, which reduces the amount of power that the San Roque Power Plant and the AHEPP are able to generate. This could reduce the revenues from the sale of power from the San Roque Power Plant and the AHEPP, which could have a material adverse effect on SMC Global Power's business, financial condition and results of operations. Conversely, if too much rainfall occurs at any one time, such as during a typhoon, water may flow too quickly and at volumes in excess of the water intake capacity of the San Roque Power Plant and AHEPP, which may cause release of water using the spillway.

Challenges in successfully implementing its growth strategy.

Implementing the growth strategy of SMC Global Power involves: (i) substantial investments in new power generation facilities and expansion of existing power generation facilities; (ii) acquisitions of existing power generation capacity; (iii) entering into alliances with strategic partners; (iv) entering into new and developing technologies and services, such as energy storage solutions, particularly BESS and ancillary services, such as frequency regulating reserves; and (v) targeting new markets, such as the renewable energy market. The success in implementing the strategy of the Company will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of power, its ability to manage construction of planned greenfield and expansion power projects within technical, cost and timing specifications, its ability to establish BESS projects and integrate these with the grid and support renewable energy sources, its ability to secure offtake agreements through CSP, its ability to control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy (including overall growth and income levels), the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

SMC Global Power is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected. For example, the Company may consider alternative technologies for planned power projects that will improve efficiencies and lower emissions.

The growth strategy of SMC Global Power will also place significant demands on its management, financial and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. In addition, expansion into new markets will necessitate recruitment and development of expertise in new technologies, including BESS technologies. Any inability to meet these challenges could disrupt the business of SMC Global Power, reduce its profitability and adversely affect its results of operations and financial condition.

Interest rate risk.

While SMC Global Power intends, whenever appropriate, to enter into hedging transactions which may mitigate its interest rate exposure, any such hedging policy may not adequately cover its exposure to interest rate fluctuations and such fluctuations may result in a high interest expense and an adverse effect on its business, financial condition and results of operations.

Availability of financing and significant long-term debt as well as perpetual capital securities.

SMC Global Power expects to fund its expansion and growth plans through a combination of internally generated funds and external financing. The continued access to debt and equity financing of the Company is subject to factors, many of which are outside of the control of SMC Global Power. Political instability, economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing, decrease the price of its securities, or restrict the ability of SMC Global Power to obtain debt or equity financing. In addition, recent disruptions in global capital and credit markets may continue indefinitely or intensify. Other factors affecting the ability of SMC Global Power to borrow include (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers; (ii) compliance by the Company with existing debt covenants, which include debt to equity ratio and debt service coverage ratio covenants; and (iii) the ability of SMC Global Power to service new debt. The inability of SMC Global Power to obtain financing from banks and other financial institutions or from capital markets would adversely affect its ability to execute its expansion and growth strategies and have a material adverse effect on the business, financial condition, and results of operations of SMC Global Power.

In addition, SMC Global Power has significant long-term debt, finance lease obligations, and perpetual capital securities.

As of June 30, 2020, the long-term debt of SMC Global Power consists of the following: ₱80.0 billion (U.S.$1,605.5 million) fixed rate bonds listed on The Philippine Dealing & Exchange Corp., ₱14.6 billion (U.S.$293.5 million) fixed rate 7-year term loan facility, U.S.$700 million term loan, ₱41,375.0 billion (U.S.$830.3 million) term loan of SCPC and ₱19.4 billion (U.S.$388.4 million) term loan of SMCPC under a 12-year Omnibus Loan and Security Agreement, U.S.$238.0 million loan of MPPCL under an Omnibus Refinancing Agreement, and U.S.$513.1 million loan of MPPCL under an Omnibus Expansion Financing Agreement.

As of June 30, 2020, the noncurrent liabilities of SMC Global Power included finance lease liabilities (net of current portion) of ₱89,682.9 million (U.S.$1,799.8 million) and long-term debt (net of current maturities and debt issue costs) of ₱208,498.8 million (U.S.$4,184.2 million). As of June 30, 2020, the current liabilities of SMC Global Power included accounts payable of ₱40,658.6 million (U.S.$815.9 million) and finance lease liabilities (current portion) of ₱23,671.6 million (U.S.$475.0 million).

In May 2014 and August 2015, SMC Global Power issued undated subordinated capital securities amounting to U.S.$300 million for each issuance; the U.S.$300 million undated subordinated capital securities issued in May 2014 were redeemed on the relevant step up date of November 7, 2019. In March 2018, the Company issued redeemable perpetual securities amounting to U.S.$650 million for the acquisition of the Masinloc Power Plant. On March 28, 2019, the Company priced three series of Philippine Peso fixed-rate bonds in an aggregate amount of ₱25 billion with an oversubscription option of up to ₱5 billion. The Philippine Peso fixed-rate bonds in the aggregate amount of ₱30 billion were issued and listed on The Philippine Dealing & Exchange Corp. on April 24, 2019. On April 25, 2019, the Company issued U.S.$500 million senior perpetual capital securities. On July 3, 2019, the Company issued an additional U.S.$300 million senior perpetual capital securities, which were consolidated into and form a single series with the U.S.$500 million senior perpetual capital securities issued on April 25, 2019. On November 5, 2019, the Company issued an additional U.S.$500 million senior perpetual capital securities. On January 21, 2020, the Company issued an additional U.S.$600 million senior perpetual capital securities.

There is no assurance that the Company will be able to refinance or obtain additional financing when needed on commercially acceptable terms or at all. Any additional debt financing may place restrictions on the Company, which may, among others:

- increase vulnerability to general adverse economic and industry conditions;
- limit ability to pursue growth plans;
- limit ability to raise additional financing and access credit or equity markets to satisfy its repayment obligations as they become due on favorable terms, or at all;

- require the Company to dedicate a substantial portion of cash flow from operations to payments on debt and capital securities, thereby reducing the availability of its cash flow to fund capital expenditure, working capital requirements and other general corporate purposes; and/or

- limit its flexibility in planning for, or reacting to, changes in its business and its industry, either through the imposition of restrictive financial or operational covenants or otherwise.

Dependence on the existence of transmission infrastructure.

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas grid and the lack of any interconnectivity between the Visayas-Mindanao grid.

The Company and its subsidiaries are in constant consultation and communication with NGCP and other relevant Government institutions to address the transmission infrastructure requirements of the Company and its subsidiaries. The DOE is mandated by law to prepare a Transmission Development Plan to be implemented by NGCP which aims to address projected infrastructure limitations and interconnectivity of sub-grids.

If these transmission constraints continue, the ability of SMC Global Power to supply electricity from the IPPA Power Plants of its subsidiaries and its operating and planned greenfield power projects, as well as the ability of SMC Global Power to increase its geographical reach, will be adversely affected. This could have a material adverse effect on the business and revenue growth of the Company from the sale of power.

Certain tax exemptions and tax incentives.

As of June 30, 2020, certain subsidiaries of SMC Global Power, namely, SCPC for the Limay Greenfield Power Plant, SMCPC for the Davao Greenfield Power Plant and MPPCL for the Masinloc Power Plant, Masinloc BESS, SMCGP Philippines Energy for the Kabankalan BESS and Universal Power Solutions Inc. ("**UPSI**", formerly Limay Power Generation Corporation) for the BESS projects were registered with the Board of Investments ("**BOI**") as new operators with pioneer status and non-pioneer status for its greenfield projects. BOI-registered entities are granted certain tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts and accessories.

For the plants currently availing of these incentives, if these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is currently 30.0% of net taxable income as of June 30, 2020. As a result, the tax expense of SMC Global Power would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Regulatory Risks.

The business of SMC Global Power is subject to extensive government regulation, particularly for its greenfield power plants and retail supply business. Moreover, as the Company expands its BESS capabilities and projects, it will be subject to applicable regulations under ancillary services and energy storage systems. See "*Regulation and Environmental Matters*." To conduct its businesses, SMC Global Power and its subsidiaries must obtain various licenses, permits and approvals. Even when SMC Global Power and its subsidiaries obtain the required licenses, permits and approvals, their operations are subject to continued review under the applicable regulations, and the interpretation or implementation of such regulations is subject to change.

For example, the operations of its greenfield power plants are subject to a number of national and local laws and regulations, including safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of facilities, employee exposure to hazardous substances, site clean-up, groundwater quality and availability, plant and wildlife protection, and other aspects of the operations of the business of SMC Global Power and its subsidiaries. Failure to comply with relevant laws and regulations may result in monetary penalties or administrative or legal proceedings against SMC Global Power or its subsidiaries, which may cause or result in the termination or suspension of the licenses or operation of their facilities.

SMC Global Power and its subsidiaries have incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. In addition, SMC Global Power and its subsidiaries have made, and expect to continue to make, capital expenditures on an ongoing basis to comply with safety, health, and environmental laws and regulations.

While the Company believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there can be no assurance that SMC Global Power and its subsidiaries will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held liable in any future litigation or proceedings relating to safety, health, mining and environmental matters, the costs of which could be material. In addition, safety, health, mining and environmental laws and regulations in the Philippines have become increasingly stringent. There can be no assurance that the adoption of new safety, health, mining and environmental laws and regulations, new interpretations of existing laws, increased governmental scrutiny of safety, health, mining and environmental laws or other developments in the future will not result in SMC Global Power and its subsidiaries from being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade, supplement or relocate its facilities. Moreover, in the event that future laws are enacted imposing restrictions on operations and refinancing, particularly in relation to power plants utilizing fossil fuels, then certain capital expenditures or expenses may not be recovered.

For example, recently promulgated implementing rules and regulations by the DOE on "Renewable Portfolio Standards" mandates electric power industry participants (such as generation companies, distribution utilities and electric cooperatives) to source or produce a fraction of their electricity requirements from eligible renewable energy resources and undertake CSP in sourcing renewable energy. While activities related to sourcing renewable energy are presently favored by certain public policies, these policies can be altered or reversed, which could reduce or slow demand for renewable energy sources and energy storage technologies, including BESS.

The Philippines is also a party to the 2015 Paris Agreement, which aims to keep the increase in global average of temperature to well below 2°C above pre-industrial levels and to limit the increase to 1.5°C, since this would substantially reduce the risks and effects of climate change. As a party to the agreement, the Philippines may impose more stringent regulations, particularly on coal-fired power plant emissions, requiring expensive pollution controls on coal-fired power plants, among other measures. These measures may significantly increase costs of coal-fired power plants and, at the same time, increase the cost competitiveness of renewable energy. A significant portion of the captive market may shift away from coal and other hydrocarbon fuels, which may expose the coal-fired power plants of the Company to stranded-asset risk (i.e., hazard of an asset suffering from an unanticipated write-down, devaluation, or conversion to liability).

The Company has been compliant with and continues to perform its obligations under applicable laws and regulations relevant to its businesses.

If SMC Global Power and its subsidiaries fail to comply with all applicable regulations or if the regulations governing its business or their implementation change, SMC Global Power or its subsidiaries may incur increased costs or be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations.

Climate change policies.

SMC Global Power is currently invested in certain coal-fired power plants in the Philippines. Policy and regulatory changes, technological developments and market and economic responses relating to climate change may affect the Company's business and the markets in which it operates. The enactment of an international agreement on climate change or other comprehensive legislation focusing on greenhouse gas emissions could have the effect of restricting the use of coal. Other efforts to reduce greenhouse gas emissions and initiatives in various countries to use cleaner alternatives to coal such as natural gas may also affect the use of coal as an energy source.

In addition, technological developments may increase the competitiveness of alternative energy sources, such as renewable energy, which may decrease demand for coal generated power. Other efforts to reduce emissions of greenhouse gases and initiatives in various countries to encourage the use of natural gas or renewable energy may also discourage the use of coal as an energy source. The physical effects of climate change, such as changes in rainfall, water shortages, rising sea levels, increased storm intensities and higher temperatures, may also disrupt the Company's operations. As a result of the above, the Company's business, financial condition, results of operations and prospects may be materially and adversely affected.

Changes in taxation.

On September 9, 2019, the House of Representatives of the Philippines approved on third and final reading House Bill No. 304, or the Passive Income and Financial Intermediary Taxation Act ("**PIFITA**"). The PIFITA bill provides for, among others, a reduction in the tax rates on interest income from yield or any other monetary benefit earned or received from bank deposits, deposit substitutes, trust fund and similar arrangements from the current 20% to 15%, and an increase in the tax rate on cash and/or property dividends from the current 10% to 15%. In addition, the PIFITA bill provides for the rationalization of documentary stamp taxes. In the event the PIFITA bill is enacted, the amount required to be grossed up by the Company will increase. To date, the House of Representatives is still awaiting the Senate's action on the PIFITA bill.

On September 13, 2019, the House of Representatives of the Philippines also approved on third and final reading House Bill No. 4157, or the Corporate Income Tax and Incentives Rationalization Act ("**CITIRA**"). The CITIRA bill provides for the application of lower corporate income taxes. However, the CITIRA bill also provides for the reduction, suspension or cancellation of fiscal incentives for corporations under certain circumstances. Due to the COVID-19 pandemic, the Philippine Department of Finance submitted to the Philippine Congress proposed amendments to the CITIRA bill on May 22, 2020. The amended CITIRA bill, now referred to as the Corporate Recovery and Tax Intives for Enterprises Act ("**CREATE**") aims to recalibrate the CITIRA bill to make it more relevant and responsive to the needs of businesses negatively affected by the COVID-19 pandemic, and to improve the ability of the Philippines to attract highly desirable investments that will serve the public interest. Key tax enhancements under the CREATE bill include the immediate reduction of the corporate income tax starting July 2020 and providing flexibility for the Philippine President to grant a combination of fiscal and non-fiscal incentives. However, the CREATE bill still provides for the reduction, suspension or cancellation of fiscal incentives for corporations under certain circumstances. If the bill is passed into law, the fiscal incentives currently enjoyed by the Company and/or its subsidiaries may be adversely affected. To date, the House of Representatives is still awaiting the Senate's action on the CREATE bill.

There can be no assurance that any pending tax legislation or future changes in the tax regime in the Philippines would not have a material and adverse effect on the Company's business, financial condition, and results of operations.

ERC regulation of electricity rates of distribution utilities.

The imposition of more stringent regulations and similar measures by the ERC could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Sales to distribution utilities account for majority of the consolidated sales volume of SMC Global Power for the six months ended June 30, 2020. While rates charged by SMC Global Power through its subsidiaries under their offtake agreements, including those with distribution utilities, are not regulated by the ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC. Accordingly, the ability of distribution utility customers to pay the subsidiaries of SMC Global Power largely depends on their ability to pass on their power costs to their customers. There is also no assurance that the current laws, regulations, and issuances affecting the industry, particularly the EPIRA and the issuances of the ERC, will not change or be amended in the future.

There is no assurance that the ERC will permit the distribution utility customers of the subsidiaries of SMC Global Power to pass on or increase their rates or that subsequent reviews by the ERC will not result in the cancellation of any such increases or require such distribution utility customers to refund payments previously received from their customers. In addition, there is no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. For example, SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. In particular, the ERC issued an order dated March 3, 2014, which voided the WESM prices for the November and December 2013 billing months, and imposed prices to be recalculated by the PEMC. However, the Court of Appeals, in its decision dated November 7, 2017, declared the ERC order dated March 3, 2014 null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013. Upon finality, a claim for refund may be made with the PEMC. See "*Business — Legal Proceedings — ERC Order voiding WESM prices*."

More recently, the Supreme Court issued its ruling in May 2019 in respect of the following ERC resolutions:

- Resolution No. 13, Series of 2015, entitled "A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply to the Captive Market" ("**CSP Guidelines**")

- Resolution No. 1, Series of 2016, entitled "A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015" ("**ERC Clarificatory Resolution**")

The CSP Guidelines and the ERC Clarificatory Resolution were issued by the ERC to implement the CSP, pursuant to the DOE's Department Circular No. DC2015-06-0008 mandating all distribution utilities to undergo CSP in securing power supply agreements.

In its decision, the Supreme Court, acting on a petition filed by certain entities, declared as void the first paragraph of Section 4 of the CSP Guidelines and the ERC Clarificatory Resolution. Consequently, all PSAs filed with the ERC on or after June 30, 2015 were directed to comply with the CSP in accordance with prevailing rules and regulations. The power purchase cost resulting from the CSP (the "**CSP Power Purchase Cost**") would be the generation cost which the relevant distribution utility may pass on to its customers commencing on June 30, 2015. In a resolution dated July 23, 2019, the Supreme Court denied with finality all motions for reconsideration filed by various parties. In consideration of the foregoing, the PSA between Meralco and MPGC, and the PSA between Meralco and CLPPC, were voluntarily terminated by mutual agreement of the relevant parties. The Company intends to participate in the power supply requirements of Meralco estimated to be up to 4,200 MW and for which bidding is expected over the next few years.

Further, as a result of the decision, the ERC released orders to the joint applicants of various PSA applications (the "**Joint PSA Applications**") filed during the affected period requiring them to comply with the CSP requirements under the DOE CSP Policy and to submit the necessary DOE certifications attesting their compliance to the said circular (the "**2019 ERC Orders**"). The lack of the necessary DOE certifications could result in the dismissal of the relevant Joint PSA Applications.

In October 2019, the Company, together with certain distribution utilities and electric cooperatives, filed motions for reconsideration of the 2019 ERC Orders claiming that the DOE CSP Policy should not apply to such Joint PSA Applications primarily on the ground that these were entered into before the implementation of the DOE CSP Policy in 2018. As of the date of this Offering Circular, these motions for reconsideration are pending before the ERC. The ERC or the DOE may still require the relevant distribution utilities and/or the relevant generation companies of the Joint PSA Applications to refund the difference between the generation cost actually passed on to customers and the applicable CSP Power Purchase Cost that could be passed on to customers, accruing from June 30, 2015 until the effectivity of the relevant CSP Power Purchase Cost under applicable regulations.

The ERC in the exercise of its regulatory powers may also impose fines, penalties, or sanctions on SMC Global Power in appropriate cases. Any such fines, penalties, sanctions or restriction on the ability of distribution utilities and/or generation companies to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Trading on the WESM.

While the subsidiaries of SMC Global Power only sell a small amount of power through the WESM, volatile market conditions on the WESM may nevertheless pose risks to SMC Global Power regardless of whether there is a shortage or a surplus of energy available. When the WESM experiences a shortage, there is little risk to suppliers in terms of their value-position being destroyed. However, such a suppliers' market exposes these suppliers to the risk that regulatory agencies may intervene (directly or indirectly) to dictate prices and dispatch of power plants. Consumer outrage, triggered by high prices, could precipitate attempts to suspend the WESM and return to subsidized rates regimes. Regardless of whether such a suspension ultimately comes to pass, market anticipation of such an occurrence could lead to value-destructive market distortions. On the other hand, a surplus market tends to cause spot market prices to reflect the marginal cost of producing power. One of the main features of the WESM is a merit-order dispatch scheme wherein the cheapest sources of power, such as power produced from geothermal and hydroelectric energy, are dispatched first, before the more expensive power providers. While a supplier can mitigate its exposure to surplus risks by contracting the bulk of its capacity to offtakers to protect against low spot prices, as the subsidiaries of SMC Global Power have done, this also caps a supplier's ability to take advantage of price spikes caused by temporary market shortages.

Currently, the ERC has implemented a reduced primary bid cap of ₱32,000 per MWh. In addition, a permanent secondary price cap limits spot prices to ₱6,245 per MWh for as long as cumulative spot prices breach a certain threshold. Prices are automatically capped at ₱6,245 per MWh for hours where the average price for the last 120-hours exceeds ₱9,000 per MWh.

The occurrence of such events could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Possible conflicts of interest.

San Miguel Corporation is the sole shareholder of the Issuer, controls the board of directors of the Issuer and exerts significant influence over the policies, management and affairs of the Issuer. As a result, San Miguel Corporation is able to exercise significant control and influence over many corporate actions of the Issuer. The interests of San Miguel Corporation may differ from those of the Issuer which may adversely affect the interests of the Securityholders. There can be no assurance that conflicts of interest between the Issuer and San Miguel Corporation will be resolved in favor of the Issuer or the Securityholders.

Dependence on the support of San Miguel Corporation.

SMC Global Power relies upon San Miguel Corporation for certain shared services such as, but not limited to, human resources, corporate affairs, legal, finance and treasury functions. There is no guarantee that San Miguel Corporation will continue to provide these services or obtain its power requirements from SMC Global Power in the future. Should San Miguel Corporation cease to provide these services, and if SMC Global Power is unable to secure alternative sources from such services or enter into other power supply agreements, the Company's business, financial condition and results of operations could be adversely affected.

Legal and other proceedings arising out of its operations.

The Company and its subsidiaries, from time to time, may be involved in disputes with various parties involved in the generation, supply and sale of electric power, including contractual disputes with subcontractors, suppliers and government agencies including those matters discussed in "*Business — Legal Proceedings*." For example, SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result, the parties have arrived at different computations regarding the subject payments. Pending resolution of the dispute, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant and SPPC continues to be the IPP Administrator for the Ilijan Power Plant. See "*Business — Legal Proceedings — Ilijan IPPA Agreement Dispute*." Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and delays in the operations of the SMC Global Power. The Company may also have disagreements with regulatory bodies in the ordinary course of its business, which may subject it to administrative proceedings and unfavorable decisions that will result in penalties and/or delay the development of its greenfield projects and its current operations. See "*Risk Factors — Risks Relating to SMC Global Power — ERC regulation of electricity rates of distribution utilities*." In such cases, the business, financial condition, results of operations and cash flows of the SMC Global Power could be materially and adversely affected.

RISKS RELATING TO THE PHILIPPINES

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Company's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. dollar and other currencies. As of December 31, 2017, according to BSP data, the Peso remained steady at ₱49.93 per U.S.$1.00 from ₱49.81 per U.S.$1.00 at the end of 2016. The Peso depreciated to ₱51.80 against the U.S. dollar as of December 31, 2019, but has since appreciated and remained stable in the first two quarters of 2020. As of October 9, 2020, the exchange rate quoted on the BSP Reference Exchange Rate Bulletin was ₱48.38 per U.S.$1.00.

Substantially all of the Company's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Company's business, financial position and results of operations.

Substantially all of the Company's business operations and assets are based in the Philippines. As a result, the Company's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls. In January 2018, inflation rose to an over three-year high of 3.4% and rose steadily to an average inflation rate of 5.2% for 2018. The average inflation rate decreased to 2.5% in 2019, and remained at 2.5% for the first half of 2020. After several interest rate hikes in 2018, the Monetary Board kept the BSP's overnight reverse repurchase at 4.75% and 4.50% by end of 2018 and 2019, respectively. In February 2020, the Monetary Board cut the BSP's overnight reverse repurchase facility by 25 basis points to 3.75%, while interest rates on the overnight lending and deposit facilities were reduced to 4.25% and 3.25%, respectively. After several interest rate cuts to address the adverse effects of the COVID-19 pandemic, the Monetary Board maintained the BSP's overnight reverse repurchase facility rate at 2.25% and overnight lending and deposit facilities rates were reduced to 2.75% and 1.75%, respectively, in August 2020. On October 1, 2020, the Monetary Board decided to maintain the interest rate on overnight reverse repurchase facility at 2.25%, and the overnight lending and deposit facilities rates at 2.75% and 1.75%, respectively.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;

- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- Government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- public health epidemics or outbreaks of diseases, such as COVID-19, the re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

The Philippines' economic growth rate in 2019 was 5.9%, which was slower than the 6.2% growth rate registered in 2018. For the first half of 2020, GDP contracted by 9.0% driven primarily by COVID-19 -related restrictions, compared to the same period in 2019 where GDP grew by 5.5%. Moreover, uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Philippine governmental policies will continue to be conducive to sustaining economic growth. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Company's financial position and results of operations, including the Company's ability to grow its energy portfolio, and its ability to implement the Company's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition or results of operations.

Political instability may have a negative effect on the business, financial position or results of operations of the Company.

The Philippines has from time to time experienced political and military instability, including acts of political violence. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there were instances of political instability, including impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by the previous administration. In addition, a number of current and past officials of the Philippine government are currently under investigation or have been indicted for graft, corruption, plunder, extortion, bribery, or usurpation of authority.

Presidential elections for the Philippines were held on May 9, 2016 and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a solid mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. At the start of his term, the Duterte administration initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups, but has then declared an all-out war against communist rebel groups since 2017.

To address the long-standing armed conflict in Mindanao, a new version of a law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government was crafted under the Duterte administration. The Bangsamoro Organic Law ("**BOL**") which abolished the Autonomous Region in Muslim Mindanao, and created the Bangsamoro Autonomous Region in Muslim Mindanao ("**BARMM**") was signed into law by President Rodrigo Duterte on July 26, 2018. The BARMM is parliamentary-democratic in form, and is headed by a chief minister presiding over an 80-member parliament. The plebiscite to ratify the BOL was scheduled to be held on two separate dates, January 21, 2019 and February 6, 2019. On January 25, 2019, the Commission on Elections *en banc*, sitting as the National Plebiscite Board of Canvassers proclaimed the BOL as deemed ratified considering that majority of the votes cast in all provinces and cities of the present ARMM voting as one geographical area is in favor of approval of the said law. The National Plebiscite Board of Canvassers also proclaimed that Cotabato City shall form part of the BARMM considering that majority of the votes cast in the city is in favor of the city's inclusion. However, Isabela City, Basilan shall not be part of BARMM for the majority of the votes cast is not in favor of inclusion.

On May 11, 2018, the Supreme Court granted a *quo warranto* petition filed against then Chief Justice Lourdes A. Sereno resulting in her removal as Chief Justice. On June 19, 2018, the Supreme Court affirmed its decision. In June 2018, former President Benigno Aquino III was indicted for usurpation of legislative powers concerning the Disbursement Acceleration Program during his term. Moreover, several individuals who were high-ranking officers under the administration of President Aquino have also been indicted for graft and corruption charges and drug trafficking among other offenses. In addition, since the commencement of the current administration, more than 1,000 alleged drug dealers and users have been killed in police operations, and more than 1,300 drug dealers and drug users have been killed by supposed vigilantes.

Currently, the Duterte administration is pushing for a shift to a federal form of government. For this purpose, the President created a consultative committee to review the 1987 Constitution and draft a federal constitution.

There can be no assurance that there will not be any future political events that could destabilize the Philippines resulting in a negative effect on the general economic conditions of the country. Any such event could have a material impact on the Company's business, financial position, and results of operations.

Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on the Company's business, financial position and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally, there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of the Moro National Liberation Front ("**MNLF**") allegedly led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the MNLF in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two Muslim rebel groups: MILF and BIFF in the Southern Philippines.

On May 23, 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared martial law in Mindanao amid protests from the opposition and sectors of civil society. Martial law in Mindanao was extended three times until it expired on December 31, 2019 after two and a half years. However, certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. On August 24, 2020, twin explosions in Jolo, Sulu Province in Mindanao were carried out by suicide bombers linked to the Abu Sayyaf group, killing 14 people and wounding 75 others.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to parts of the Company's businesses and materially and adversely affect its financial conditions, results of operations and prospects.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Company's business, materially disrupt the Company's operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations or cause temporary disruptions in the ability of the Company to generate electricity and meet its obligations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's power plants, assets and operations. While the Company carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Company believes are in line with general industry practices in the Philippines, there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. The Company also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Company's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Company, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Company may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Company complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts.

China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine peso or increase in interest rate, may adversely affect the Company's operations. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Company has operations could materially and adversely affect the Company's business, financial condition and results of operations.

Investors may face difficulties enforcing judgments against SMC Global Power.

Considering that the Company is organized under the laws of the Republic of the Philippines and substantial portion of its operating assets are located in the Philippines, it may be difficult for investors to enforce judgments against SMC Global Power obtained outside of the Philippines. In addition, all of the directors and officers of SMC Global Power are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction in accordance with its jurisdictional rules; (ii) the party against whom enforcement is sought did not receive notice of the proceedings; (iii) judgment was obtained by collusion, fraud, or on the basis of a clear mistake of law or fact; or (iv) the judgment is contrary to the laws, public policy, good customs or public order of the Philippines.

The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Company.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents in the Philippines, including SMC Global Power. As of June 30, 2020, the Philippines' long-term foreign currency-denominated debt was rated BBB by Fitch and Baa2 by Moody's. On April 30, 2019, S&P Global Ratings upgraded its rating from BBB to BBB+ stable. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including SMC Global Power, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

RISKS RELATING TO THE SECURITIES

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of investing in the Securities in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or distribution payments is different from the potential investor's currency;

- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Securities are perpetual securities and investors have no right to require redemption.

The Securities are undated and have no fixed final maturity date. Securityholders have no right to require the Issuer to redeem the Securities at any time and they can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, holders of Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

Securityholders may not receive Distribution payments if the Issuer elects to defer Distribution payments.

Subject to the Conditions, SMC Global Power may, at its sole and absolute discretion, elect to defer any scheduled Distributions on the Securities for any period of time. The Issuer is not subject to any limits as to the number of times Distributions and Arrears of Distributions can be deferred. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Conditions, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distributions shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4.7 (*Payment of Arrears of Distribution*).

Any deferral of Distributions will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distributions deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the business, financial condition, results of operations and prospects of the Issuer.

The Securities may be redeemed at the option of the Issuer on the Step Up Date or any subsequent Distribution Payment Date or upon the occurrence of certain other events.

The Securities are redeemable at the option of the Issuer, in whole but not in part, on the Step Up Date or any Distribution Payment Date falling after the Step Up Date at 100% of their principal amount together with all other outstanding amounts due under the Securities accrued to the date fixed for redemption.

The Issuer also has the right to redeem the Securities upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts. In addition, the Securities may be redeemed (in whole but not in part) at the option of the Issuer (A) upon the occurrence of a Change of Control Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Indebtedness Default Event at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, or (D) in the event 25% or less of the aggregate principal amount of the Securities issued on the Issue Date remain outstanding (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined below) or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to the Securityholders*).

The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There may be insufficient distributions upon liquidation.

The obligations of the Issuer under the Securities and under the Trust Deed will constitute its direct, unconditional, unsecured and unsubordinated obligations. In the event of liquidation or winding-up, the claims of Securityholders in respect of the Securities, including in respect of any claim to Arrears of Distribution, will (subject to and to the extent permitted by applicable law) be preferred over the subordinated obligations of the Company and will rank at least *pari passu* with each other and with all other unconditional, unsecured and unsubordinated obligations of the Company.

There are limited remedies for default under the Securities.

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment has become due and the Issuer fails to make the payment when due. The only remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer, as provided in the Conditions) any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of the payment obligations of the Issuer arising from the Securities and the Trust Deed.

The adoption of new accounting policies of PFRS may have a significant impact on the financial condition and results of operations of SMC Global Power and/or may result in a change to the accounting treatment of the Securities, which could give the Issuer the right to elect to redeem the Securities.

The FRSC is continuing its policy of issuing PFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**"). The FRSC has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new PFRS will not have a significant impact on the financial condition and results of operations of the Company. In addition, any change or amendment to, or any change or amendment to any interpretation of, PFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of the Issuer, and will give the Issuer the right to elect to redeem the Securities. See "— *The Securities may be redeemed at the option of the Issuer on the Step Up Date or any subsequent Distribution Payment Date or upon the occurrence of certain other events*."

The applicable Rate of Distribution may decline on any Reset Date.

The Rate of Distribution will be reset on each Reset Date by reference to the then Treasury Rate (as defined in the Conditions). Accordingly, a Securityholder is exposed to the risk of a fluctuating Rate of Distribution and uncertain distribution income. A fluctuating Rate of Distribution makes it impossible to determine the yield of the Securities with respect to any Reset Period in advance.

The Issuer and its subsidiaries may raise other capital and incur substantial indebtedness in the future and may not be able to generate sufficient cash flows to meet its obligations.

The Issuer may from time to time and without prior consultation of the holders of the Securities create and issue further Securities (see Condition 9 (*Further Issues*)). Furthermore, the Issuer and its subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Under the terms of the Securities, there is no restriction, contractual or otherwise, on the amount of Securities that the Issuer may further issue or securities or other liabilities that the Issuer and its subsidiaries may issue or incur and that rank senior to, or *pari passu* with, the Securities. If the Issuer or its subsidiaries incur additional debt, that could have important consequences to investors. For example, it could: (1) limit the ability of the Issuer to satisfy its obligations under the Securities and other debt; (2) increase the vulnerability of the Issuer to adverse general economic and industry conditions; (3) require the Issuer to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, planned capital expenditures and other general corporate purposes; (4) limit the flexibility of the Issuer in planning for or reacting to changes in its businesses and the industries in which it operates; (5) increase the cost of additional financing; and (6) place the Issuer at a competitive disadvantage compared to its competitors that have less debt. If the subsidiaries of the Issuer incur additional indebtedness, that could also have adverse effects on the subsidiaries similar to those described above, and therefore on the Issuer. The issue of any further Securities or such other securities, or the incurrence of any such other liabilities, may reduce the amount (if any) recoverable by holders of the Securities on a winding-up of the Issuer and may also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell them.

An active trading market for the Securities may not develop or be sustained.

There has been no prior trading market for the Securities. The Issuer has been advised that the Joint Lead Managers intend to make a market in the Securities, but that they are not obligated to do so and may discontinue such market making activity at any time without notice. The Issuer cannot predict whether an active trading market for the Securities will be sustained. The Securities could trade at prices that may be lower than the initial offering price for the Securities. The price at which the Securities trade depends on many factors, including, but not limited to:

- prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- the financial condition of the Issuer, historical financial performance and future prospects.

Approval-in-principle has been obtained from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. No assurance can be given that the application to the SGX-ST for the Securities will be approved or that the Issuer will be able to maintain a listing for the Securities or that a liquid trading market for the Securities will develop or continue. If an active market for the Securities fails to be sustained, the trading price of the Securities could be materially and adversely affected. Lack of a liquid or active trading market for the Securities may adversely affect the price of the Securities or may otherwise impede a holder's ability to dispose of the Securities.

The Company will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt or hybrid securities in certain other countries.

The Issuer will be subject to reporting obligations in respect of the Securities to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST are different from those imposed by securities exchanges in other countries or regions, such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Securities are accustomed to.

The conditions of the Securities contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Securityholders and without regard to the individual interests of particular Securityholders.

The Trust Deed contains provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders, including

Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. The Trust Deed also provides that the Trustee may, without consent of the Securityholders, agree to any modification of any provision of the Securities which is not materially prejudicial to the interests of the Securityholders or which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law, in the circumstances described in "*Terms and Conditions of the Securities — Meetings of Securityholders, Modification, Waiver, Authorization and Determination — Modification, Waiver, Authorization and Determination*."

The Trustee may decline to take actions requested by the Securityholders.

Under the Trust Deed, in certain circumstances, the Trustee may, at its sole discretion, request the Securityholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Securityholders. The Trustee shall not be obliged to take any such actions if no such indemnity or security or pre-funding is provided to its satisfaction. Even if the Securityholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree to the indemnity and/or security and/or pre-funding may have an impact as to when such action is taken. In addition, notwithstanding the provision of an indemnity or security or pre-funding to the Trustee, the Trustee may decline to take action requested by the Securityholders if it determines that such actions are not permitted under the terms of the Trust Deed or applicable law.

The imposition of exchange controls could result in an investor not receiving payments on the Securities.

The Government has, in the past, instituted restrictions on the conversion of Philippine pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, in the imminence of, or during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Issuer is not aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon receipt of any payments from the Issuer.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of a company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of that company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. A portion of the Company's financial indebtedness is covered by agreements which are embodied in public instruments. However, these agreements contain a waiver by each of the respective lenders of the benefit of preference or priority accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines. The waivers are subject to the condition that all present and future creditors of the Company are *pari passu* and no creditor shall be conferred a superior right on the basis that its credit appears in a public instrument.

RISKS RELATING TO CERTAIN INFORMATION IN THIS OFFERING CIRCULAR

Certain information contained herein is derived from unofficial publications.

Certain information in this Offering Circular relating to the Philippines, the industries and markets in which the businesses of SMC Global Power compete and other data used in this Offering Circular was obtained or derived from internal surveys, market research, governmental data, publicly available information and/or industry publications. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate or complete. Similarly, internal surveys, industry forecasts and market research have not been independently verified by SMC Global Power and may not be accurate, complete, up-to-date, balanced or consistent with other information compiled within or outside the Philippines.

TERMS AND CONDITIONS OF THE SECURITIES

The following (other than any paragraph in italics), subject to alteration, are the terms and conditions of the Securities, which will be endorsed on the Certificates issued in respect of the Securities.

The issue of the U.S.$400,000,000 Senior Perpetual Capital Securities (the "**Securities**", which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 9 and forming a single series with the Securities) of SMC Global Power Holdings Corp., a corporation organized under the laws of the Republic of the Philippines (the "**Issuer**") are constituted by a trust deed to be dated the Issue Date (the "**Trust Deed**") made between the Issuer and DB Trustees (Hong Kong) Limited (the "**Trustee**", which expression includes its successor(s)) as trustee for the holders of the Securities (the "**Securityholders**")).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the agency agreement to be dated the Issue Date (the "**Agency Agreement**") made between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**") and as transfer agent (the "**Transfer Agent**"), the other paying agents named therein (each a "**Paying Agent**" and, together with the Principal Paying Agent, the "**Paying Agents**"), Deutsche Bank AG, Hong Kong Branch as calculation agent (the "**Calculation Agent**") and as the registrar (the "**Registrar**" and, together with the Paying Agents, the Transfer Agent and the Calculation Agent, the "**Agents**"). Copies of the Trust Deed and the Agency Agreement are available for inspection with reasonable prior notification during normal business hours by the Securityholders at the specified office of the Trustee and the Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Securities are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the "**Principal Amount**" of a Security).

*Upon issue, the Securities will be represented by a Global Certificate deposited with and registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). The Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate".*

The Securities are not issuable in bearer form.

A certificate (each a "**Certificate**") will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders (the "**Register**") which the Issuer will procure to be kept by the Registrar.

The Registrar will keep the Register outside of the United Kingdom in accordance with the provisions of the Agency Agreement.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

1.2 Title

Title to the Securities passes only by registration in the Register. The person in whose name a Security is registered in the Register will (except as otherwise required by law) be treated as the absolute owner of that

Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder. In these Conditions, Securityholder or Holder means the person in whose name a Security is registered in the Register.

For a description of the procedures for transferring title to book-entry interests in the Securities, see "Clearance and Settlement of the Securities".

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Condition 2.4 and Condition 2.5, a Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents (other than the Calculation Agent) together with such evidence as the Registrar or such other Agent may require to prove the title of the transferor and the authority of the individual who has executed the form of transfer; *provided*, however, that such Security may not be transferred unless the Principal Amount of Securities transferred and (where not all of the Securities held by a Securityholder are being transferred) the Principal Amount of the balance of Securities not transferred are in authorized denominations described in Condition 1.1. In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

Transfers of interests in the Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

For a description of certain restrictions on transfers of interests in the Securities, see "Subscription and Sale".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar or any of the other Agents (other than the Calculation Agent) of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the Holder entitled to the transferred Securities to the address specified in the form of transfer. For the purposes of this Condition, business day shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or such other Agent (other than the Calculation Agent) (as applicable) with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Securities not so transferred will, within five business days of receipt by the Registrar or any of the other Agents (other than the Calculation Agent) of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred to the address of such Holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer, the Registrar or any other Agent (other than the Calculation Agent) but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any other Agent (other than the Calculation Agent) may reasonably require) by the relevant Holder in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Securityholder may require the transfer of a Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal, premium (if any) or Distributions on that Security.

2.5 Regulations

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

3. STATUS

3.1 Status of the Securities

The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other outstanding, unsecured and unsubordinated obligations of the Issuer, past and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The claims of the Securityholders in respect of the Securities, including in respect of any claim to Arrears of Distribution (as defined herein), will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank *pari passu* with each other and with all other unconditional, unsecured and unsubordinated obligations of the Issuer.

3.2 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3.3 No Voting Rights

The Securities do not confer any voting rights on Securityholders with respect to the common shares or any other class of share capital of the Issuer.

4. DISTRIBUTIONS

4.1 Rate of Distribution

Subject to Condition 4.4 and Condition 4.5, the Securities will confer a right to receive distributions ("**Distributions**"):

(a) from the period commencing on (and including) the Issue Date to (but excluding) October 21, 2025 (the "**Step Up Date**"), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar), payable semi-annually in arrear on April 21 and October 21 of each year (each a "**Distribution Payment Date**") commencing on April 21, 2021.

"**Reset Date**" means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

4.2 Distribution Accrual

Each Security will cease to accrue Distributions from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event Distributions shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Broken Amounts

When any Distribution is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

4.4 Increase in Rate of Distribution

Following the earlier to occur of:

(a) the date which is the 61st day, or if such day is not a Business Day the first Business Day thereafter, following a Change of Control Event; and

(b) the date on which a Reference Indebtedness Default Event occurs,

and the Issuer does not elect to redeem the Securities pursuant to Condition 5.4, the Rate of Distribution will increase by 2.50% per annum with effect from the next Distribution Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date). For the avoidance of doubt, an increase (if any) in the Rate of Distribution pursuant to this Condition 4.4 shall not occur more than once.

A "**Change of Control Event**" means Permitted Holders ceasing to, whether directly or indirectly, have control in respect of more than 50% of the outstanding Voting Stock of the Issuer.

"**Permitted Holders**" means any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, and (c) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a person specified in subclauses (a) and (b) above.

"**Reference Indebtedness Default Event**" means an event of default occurs pursuant to Section 9.1(b) (*Events of Default*) of the trust agreement in respect of the Issuer's outstanding ₱3,609,020,000 6.625% 10-year Series F Bonds due 2027 (ISIN: PHY806B2AJ53) (the "**Initial Reference Notes**") or any debt security issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, defease or discharge the Initial Reference Notes prior to their maturity (the "**Refinancing Securities**"), as a result of the Issuer's default in, non-compliance with or non-performance of the Initial Reference Notes or of the Refinancing Securities, as the case may be, as such Initial Reference Notes or Refinancing Securities are amended from time to time in accordance with the terms and conditions of the Initial Reference Notes or of the Refinancing Securities, as the case may be.

4.5 Optional Deferral of Distributions

(a) The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the "**Deferral Election Event**"). Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

(b) The Issuer will notify the Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the "**Deferral Election Notice**"). Deferral of a Distribution pursuant to Condition 4.5(a) will not constitute a default by the Issuer (including, without limitation, pursuant to Condition 10) or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

(c) Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by two duly Authorized Signatories of the Issuer confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall be entitled to rely on and accept, without liability to the Securityholders and without further investigation or enquiry, such certificate as sufficient evidence of the occurrence of a Deferral Election Event in which event such evidence shall be conclusive and binding on the Issuer and the Securityholders.

(d) The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a).

"**Compulsory Distribution Payment Event**" means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a *pro rata* basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or (except on a *pro rata* basis) Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries, other than a redemption, repurchase or other acquisition in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer.

4.6 Restrictions in the case of Deferral

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

(a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a *pro rata* basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or (except on a *pro rata* basis) Parity Securities of the Issuer, other than a redemption, reduction, cancellation, buy-back or acquisition in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

4.7 Payment of Arrears of Distribution

The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a *pro rata* basis between the Securityholders.

(a) "**Payment Reference Date**" means the date which is the earliest of:

  (i) the date on which the Securities are redeemed in accordance with Condition 5;

  (ii) the date on which an order is made for the Winding-Up of the Issuer; and

  (iii) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event.

5. REDEMPTION AND PURCHASE

5.1 Redemption

The Securities have no fixed redemption date. Unless previously redeemed or purchased and cancelled as provided in the following provisions of this Condition 5 (without prejudice to Condition 10), the Securities will have no maturity date, unless the Issuer elects to retain a fixed corporate term under its articles of incorporation. If the Issuer elects to have a fixed corporate term under its articles of incorporation, the term of the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its articles of incorporation.

*As of the date of this Offering Circular, the Issuer's articles of incorporation states that its corporate term will expire on January 23, 2058. Under the Revised Corporation Code of the Philippines (Republic Act No. 11232, the "**Revised Corporation Code**"), the corporate term of corporations with certificates of incorporation issued prior to the effectivity of the Revised Corporation Code (i.e., prior to February 23, 2019) shall have perpetual existence unless the corporation elects to retain a specific corporate term through a shareholder vote and filing to this effect with the Securities and Exchange Commission of the Philippines. Thus, the Issuer no longer has a fixed corporate term but has perpetual existence by operation of law.*

5.2 Redemption at the option of the Issuer

Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

(a) the Step Up Date; or

(b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

5.3 Early redemption due to a Gross-up Event

(a) If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

(c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(ii) an opinion of an independent legal or tax adviser of recognized standing addressed to the Trustee to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to rely on and accept, without liability to the Securityholders and without further investigation or enquiry, the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event such evidence shall be conclusive and binding on the Securityholders.

For the avoidance of doubt, a change of jurisdiction or domicile of the Issuer shall not be considered a reasonable measure.

"**Gross-up Event**" means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after October 14, 2020, the Issuer has or will become obliged to pay Additional Amounts; *provided* that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided further* that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after October 14, 2020, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 30.0%.

5.4 Early redemption due to a Change of Control Event, Reference Indebtedness Default Event, or Accounting Event

(a) If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) If a Reference Indebtedness Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(c) If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(d) Such notice of redemption as provided in Conditions 5.4(a), 5.4(b), and 5.4(c) may only be given simultaneously with or after a notification by the Issuer in accordance with Condition 12.1 that a Change of Control Event, a Reference Indebtedness Default Event or an Accounting Event (as the case may be) has occurred.

(e) An "**Accounting Event**" means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

Neither the Trustee nor the Agents shall be required to take any steps to ascertain whether a Gross-Up Event, Change of Control Event, Reference Indebtedness Default Event or Accounting Event has occurred and shall not be responsible or liable to the Securityholders, the Issuer or any other person for any loss arising from any failure to do so.

5.5 Purchase of Securities

The Issuer or any of its Subsidiaries may, in compliance with applicable laws, purchase Securities in any manner and at any price. Such acquired Securities may be surrendered for cancellation or held or resold.

5.6 Redemption of Securities in the case of minimal outstanding amounts

In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part):

(a) at any time prior to the Step Up Date, at the Special Redemption Price; or

(b) on or at any time after the Step Up Date, at the Redemption Price,

on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

6. PAYMENTS

6.1 Payments in respect of Securities

Payment of principal, premium (if any) and Distributions will be made by transfer to the registered account of the Securityholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and premium (if any) and payments of Distribution due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents (other than the Calculation Agent). Distributions on Securities due on a Distribution Payment Date will be paid to the holder shown on the Register at the close of business on the date being the 15th calendar day before the relevant Distribution Payment Date (the "**Record Date**").

For the purposes of this Condition, a Securityholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business, in the case of principal and premium (if any) and Distributions due otherwise than on a Distribution Payment Date, on the second Payment Business Day (as defined in Condition 6.4) before the due date for payment and, in the case of Distributions due on a Distribution Payment Date, on the relevant Record Date, and a Securityholder's "**registered address**" means its address appearing on the Register at that time.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except December 25 and January 1.*

6.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and Distributions on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

6.3 No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of Distributions due otherwise than on a Distribution Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

Securityholders will not be entitled to any Distributions or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Securityholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Mandaluyong City, New York City and Hong Kong and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal, premium (if any) or Distributions which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or Distributions in fact paid.

6.6 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be a Registrar (which may be located in any jurisdiction other than the United Kingdom); and

(c) there will at all times be a Transfer Agent. Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 12.1.

6.7 Paying Agent

So long as the Securities are listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Securities may be presented or surrendered for payment or redemption, in the event that the Global Certificate representing the Securities is exchanged for definitive certificates. In addition, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore.

7. TAXATION AND GROSS-UP

7.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer, the Issuer shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Security:

(a) presented for payment (if applicable) by or on behalf of a Securityholder who is liable to the Taxes in respect of such Security by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Security;

(b) presented for payment (if applicable) more than 30 calendar days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Security would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 calendar days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 6.4);

(c) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Security, after written request made to that Holder at least 30 calendar days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by a statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction; or

(d) presented for payment (if applicable) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

7.2 Interpretation

In these Conditions:

(a) The "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 12.1.

(b) The "**Relevant Jurisdiction**" means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in the Issuer being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

7.3 Additional Amounts, principal and Distributions

Any reference in these Conditions to any amounts in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to "**principal**" includes any installment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and "**Distributions**" includes all amounts payable pursuant to Condition 4 and any other amounts in the nature of distributions payable pursuant to these Conditions.

7.4 Payment of taxes

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7, or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Securityholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or Agents that would permit, enable or facilitate the payment of any principal, premium, interest or other amount under the Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8. PRESCRIPTION

Securities will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of Distributions) from the Relevant Date in respect of the Securities subject to the provisions of Condition 6.

9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities (which will be constituted by a deed supplemental to the Trust Deed) or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.

10. NON-PAYMENT

10.1 Non-payment when due

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

10.2 Proceedings for Winding-Up

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 calendar days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 and subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

10.3 Enforcement

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4 the Trustee may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

10.4 Entitlement of Trustee

Notwithstanding anything to the contrary, the Trustee shall not and shall not be obliged to take any of the actions referred to in these Conditions against the Issuer to enforce the terms of the Trust Deed or the Securities unless and until (a) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the Securityholders of not less than 25.0% in principal amount of the Securities then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

10.5 Right of Securityholders

Securityholders are not entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 Extent of Securityholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

10.7 No reliance on Trustee

Each Securityholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and the Trustee and the Agents shall not at any time have any responsibility for the same and each Securityholder shall not rely on the Trustee or Agents in respect thereof.

11. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to Securityholders

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the Register and shall be deemed to have been received on the seventh calendar day after being so mailed. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as all the Securities are represented by the Global Certificate and the same is/are deposited with a nominee for a common depositary and Euroclear and Clearstream, Luxembourg, notices to Securityholders shall be given by delivery to Euroclear and Clearstream, Luxembourg or such additional or substitute clearing system by the Issuer, for communication by them to entitled accountholders in substitution for publication as required by the Conditions.

12.2 Notices from Securityholders

Notices to be given by any Securityholder must be in writing and given by lodging the same, together with any Certificate in respect of such Security or Securities, with the Registrar or, if the Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

13. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT OR ACCOUNTING EVENT

The Trustee may, without the consent of the Securityholders, at any time agree with the Issuer to:

(a) the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Securities and the Trust Deed of any other company being a direct or indirect Subsidiary of the Issuer; or

(b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that:

(i) the Securities are unconditionally and irrevocably guaranteed by the Issuer;

(ii) the Issuer procures, at its own cost, the delivery of a legal opinion(s) as to English and any other relevant law, addressed to the Trustee, dated the date of such substitution of the Issuer or modification of these Conditions, as the case may be, and in a form acceptable to the Trustee from legal advisers acceptable to the Trustee; and

(iii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification.

14. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

14.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by it upon the request of Securityholders holding not less than 50.0% in principal amount of the Securities for the time being outstanding. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing over 50.0% in principal amount of the Securities for the time being outstanding, or at any adjourned meeting, one or more persons being or representing Securityholders whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals:

(a) to modify the dates on which Distributions are payable in respect of the Securities;

(b) to reduce or cancel the principal amount of, any premium payable on redemption of, or amount of Distributions on or to vary the method of calculating the Rate of Distribution on, any Securities;

(c) to change the currency of payment of any Securities; or

(d) to amend this provision or to modify the provisions concerning the quorum required at any meeting of the Securityholders or the majority required to pass an Extraordinary Resolution (each of (a), (b), (c) and (d) above, a "**Reserved Matter**"),

in which case the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 75.0%, or at any adjourned such meeting not less than 25.0%, in principal amount of the Securities for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Securityholders or passed by way of electronic consent given by the Securityholders through the relevant clearing systems in accordance with the Trust Deed will be binding on all Securityholders, whether or not they are present at any meeting at which such resolution was passed. The vote required to pass an Extraordinary Resolution at any meeting of Securityholders duly convened and held in accordance with the Trust Deed is not less than two-thirds of the votes cast. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 75.0% of the aggregate principal amount of Securities outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The provisions of this Condition 14.1 are subject to the further provisions of the Trust Deed.

14.2 Modification, Waiver, Authorization and Determination

The Trustee may, without the consent of the Securityholders, agree to any modification of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement (a) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Securityholders or (b) which is of a formal, minor or technical nature or is to correct a manifest error or an error which, in the opinion of the Trustee, is proven or (c) to comply with mandatory provisions of law. In addition, the Trustee may, without the consent of the Securityholders, authorize or waive any breach or proposed breach of these Conditions or any of the provisions of the Trust Deed if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby other than certain Reserved Matters as provided in the Trust Deed.

14.3 Trustee to have Regard to Interests of Securityholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization, determination or substitution), the Trustee must have regard to the general interests of the Securityholders as a class but must not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, must not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require from the Issuer, nor will any Securityholder be entitled to claim from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14.4 Notification to the Securityholders

Any modification, waiver, authorization, determination or substitution agreed to by the Trustee will be binding on the Securityholders and, unless the Trustee agrees otherwise, any modification or substitution will be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 12.1.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15.3 Application of Moneys Received by the Trustee

All moneys received by the Trustee in respect of the Securities or amounts payable under the Trust Deed will, despite any appropriation of all or part of them by the Issuer, be held by the Trustee on trust to apply them:

(a) first, in payment of all properly incurred fees and expenses, and all costs, charges and liabilities incurred by the Trustee (including remuneration payable to it) in carrying out its functions under the Trust Deed and by the Agents (including remuneration payable to them) in acting as agents of the Trustee under the Trust Deed;

(b) secondly, subject to the provisions of Condition 3 and Condition 4 in payment of any amounts (including principal, premium (if any) and Distributions and/or Arrears of Distribution) owing in respect of the Securities *pari passu* and rateably; and

(c) thirdly, in payment of any balance to the Issuer for itself.

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing law

The Trust Deed, the Agency Agreement, the Securities and any non-contractual obligations arising out or in connection with the Trust Deed, the Agency Agreement and the Securities, are governed by, and shall be construed in accordance with, English law.

16.2 Jurisdiction of English courts

(a) The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and has accordingly submitted to the exclusive jurisdiction of the English courts.

(b) The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Securityholders may take any suit, action or proceeding (referred to as "**Proceedings**") arising out of, or in connection with the Trust Deed or the Securities (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

16.3 Appointment of process agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

"**Accounting Event**" has the meaning specified in Condition 5.4.

"**Additional Amounts**" has the meaning specified in Condition 7.1.

"**Agency Agreement**" has the meaning specified in the preamble to these Conditions.

"**Agent** and "**Agents**" have the meaning specified in the preamble to these Conditions.

"**Arrears of Distribution**" has the meaning specified in Condition 4.5(a).

"**Authorized Signatory**" has the meaning given to it in the Trust Deed.

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Mandaluyong City, Hong Kong and New York.

"**Calculation Agent**" has the meaning specified in the preamble to these Conditions.

"**Certificate**" has the meaning specified in Condition 1.1.

"**Change of Control Event**" has the meaning given to it in Condition 4.4.

"**Compulsory Distribution Payment Event**" has the meaning specified in Condition 4.5.

"**Conditions**" means these terms and conditions of the Securities.

"**Deferral Election Event**" has the meaning specified in Condition 4.5(a).

"**Deferral Election Notice**" has the meaning specified in Condition 4.5(b).

"**Distribution Payment Date**" has the meaning specified in Condition 4.1.

"**Distributions**" has the meaning specified in Condition 4.1.

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed.

"**Gross-up Event**" has the meaning specified in Condition 5.3.

"**Holder**" has the meaning specified in Condition 1.2.

"**Initial Credit Spread**" means 6.699%.

"**Initial Rate of Distribution**" means 7.00% per annum plus any increase pursuant to Condition 4.4.

"**Initial Reference Notes**" has the meaning specified in Condition 4.4.

"**Issue Date**" means October 21, 2020.

"**Issuer**" has the meaning specified in the preamble to these Conditions.

"**Junior Securities**" means (i) any class of the Issuer's share capital (including preferred shares), (ii) any Subordinated Indebtedness issued by the Issuer, and (iii) the undated subordinated capital securities of the Issuer (ISIN: XS1277512775 / Common Code: 127751277) issued and outstanding as of the Issue Date.

"**Parity Securities**" means: (i) any instrument, security or obligation issued or entered into by the Issuer which ranks, or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer where the Issuer's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Securities.

"**Paying Agent**" has the meaning specified in the preamble to these Conditions.

"**Payment Business Day**" has the meaning specified in Condition 6.4.

"**Payment Reference Date**" has the meaning specified in Condition 4.7(b).

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**Permitted Holders**" has the meaning specified in Condition 4.4.

"**PFRS**" means Philippine Financial Reporting Standards and includes statements named PFRS and Philippine Accounting Standards ("**PAS**") and Philippine Interpretations of International Financial Reporting Interpretation Committee ("**IFRIC**") issued by the Financial Reporting Standards Council ("**FRSC**") as in effect from time to time.

"**Principal Amount**" has the meaning specified in Condition 1.1.

"**Principal Paying Agent**" has the meaning specified in the preamble to these Conditions.

"**Proceedings**" has the meaning specified in Condition 16.2(b).

"**Rate of Distribution**" means the Initial Rate of Distribution or the Reset Rate of Distribution, as applicable. Record Date has the meaning specified in Condition 6.1.

"**Redemption Price**" means the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable.

"**Reference Indebtedness Default Event**" has the meaning given to it in Condition 4.4.

"**Register**" has the meaning specified in Condition 1.1.

"**Registrar**" has the meaning given to it in the preamble to these Conditions.

"**Relevant Date**" has the meaning specified in Condition 7.2(a).

"**Relevant Jurisdiction**" has the meaning specified in Condition 7.2(b).

"**Reserved Matter**" has the meaning specified in Condition 14.1.

"**Reset Date**" has the meaning specified in Condition 4.1.

"**Reset Determination Date**" means, in relation to the calculation of a Reset Rate of Distribution, the second Business Day before the commencement of the relevant Reset Period.

"**Reset Period**" means the period from and including the Step Up Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

"**Reset Rate of Distribution**" in respect of any Reset Period means the Treasury Rate calculated on the Reset Determination Date in respect of that Reset Period plus the Initial Credit Spread and the Step Up Margin.

"**Securities**" has the meaning specified in the preamble to these Conditions.

"**Securityholders**" has the meaning specified in the preamble to these Conditions.

"**Special Redemption Price**" means 101% of the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)).

"**Step Up Date**" has the meaning given to it in Condition 4.1(a).

"**Step Up Margin**" means 2.50% per annum.

"**Subordinated Indebtedness**" means all indebtedness for money borrowed or raised which, in the event of Winding-Up of the issuer thereof, ranks or is expressed to rank, by its terms or by operation of law, in right of payment behind the claims of unsecured and unsubordinated creditors of such issuer, and for these purposes indebtedness shall include all liabilities, whether actual or contingent.

"**Subsidiary**" or "**Subsidiaries**" means, with respect to any Person, any corporation, association or other business entity, more than 50.0% of the voting power of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be controlled by another means that the other (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and control shall be construed accordingly.

"**Taxes**" has the meaning specified in Condition 7.1.

"**Transfer Agent**" has the meaning specified in the preamble to these Conditions.

"**Treasury Rate**" means the rate in percent per annum equal to the yield, under the heading that represents the average for the week immediately prior to the Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" (currently set out on the website http://www.federalreserve.gov/releases/h15/current/default.htm) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded non-inflation indexed U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities," for the maturity corresponding to five years. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, "**Treasury Rate**" shall be obtained from an internationally recognized investment bank selected by the Issuer.

"**Trust Deed**" has the meaning specified in the preamble to these Conditions.

"**Trustee**" has the meaning specified in the preamble to these Conditions.

"**Voting Stock**" means, with respect to any Person, share capital of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"**Winding-Up**" means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Securities in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Securities set out in this Offering Circular. Terms defined in the Terms and Conditions of the Securities have the same meaning in the paragraphs below. The following is a summary of certain of those provisions:

ACCOUNTHOLDERS

For so long as all of the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Securities (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Securities (and the expression "**Securityholders**" and references to "holding of Securities" and to a "holder of Securities" shall be construed accordingly) for all purposes other than with respect to payments on such Securities, the right to which shall be vested, as against SMC Global Power and the Trustee, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any Security following its redemption or purchase by SMC Global Power or any of its subsidiaries will be effected by reduction in the aggregate principal amount of the Securities in the register of Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Payments of principal and Distributions in respect of Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means a day on which Euroclear and Clearstream, Luxembourg are both open for business.

Distributions of amounts with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant rules and procedures of the system.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that such payment has been made.

NOTICES

So long as all the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the

Conditions. For so long as the Securities are listed on the SGX-ST notices shall also be published in the manner required by the rules and regulations of the SGX-ST.

REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies SMC Global Power that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by SMC Global Power within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Security may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that definitive certificates in respect of Securities so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "*Clearance and Settlement of the Securities*."

RECORD DATE

Distributions on Securities due on a Distribution Payment Date and Arrears of Distribution (and distributions accrued thereon) will be paid to the holder shown on the register of Securityholders at the close of business on the date being the 15th calendar day before the relevant Distribution Payment Date.

EXCHANGE RATES

The Bankers' Association of the Philippines ("**BAP**") announced that beginning April 2, 2018, spot and forward currency exchange transactions will be effected using the Bloomberg trading platform. As a result, the BSP's Reference Exchange Rate Bulletin now refers to the closing rate quoted on the Bloomberg platform as the closing rate for the purchase of U.S. dollars with Pesos. Prior to this, the PDS rate appearing on the PDS platform, a computer network supervised by the BSP, was quoted as the spot reference rate for foreign exchange transactions.

The following table sets forth certain information concerning the exchange rate (based on the PDS rate for the years 2014 to 2017 and based on the rate on the BAP's website for the periods indicated in 2018, after the publication of the PDS USD/PHP FX Spot Summary ceased on April 1, 2018) between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per U.S.$1.00:

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average**(1)	**High**(2)	**Low**(3)
2015	47.17	45.49	47.44	44.05
2016	49.81	47.47	49.98	45.92
2017	49.92	50.40	51.80	49.40
2018	52.56	52.68	54.34	49.78
2019	50.65	51.78	52.98	50.42
2020				
April	50.42	50.71	50.91	50.42
May	50.61	50.57	50.90	50.27
June	49.82	50.05	50.36	49.82
July	49.15	49.44	49.83	49.15
August	48.51	48.80	49.10	48.50
September	48.49	48.51	48.67	48.37
October (as of October 9)	48.31	48.40	48.48	48.31

Notes:

(1) BAP volume weighted average for the period ended.

(2) BAP (done) Highest daily closing exchange rate for the period.

(3) BAP (done) Lowest daily closing exchange rate for the period.

On October 9, 2020, the closing rate quoted by the BAP was U.S.$1.00 = ₱48.31.

USE OF PROCEEDS

The net proceeds from the issue of the Securities, which will be approximately U.S.$397.6 million (after the deduction of commissions), will be applied by the Company for capital expenditures and investments in liquified natural gas facilities and related assets, refinancing of expiring commitments of the Company whether debt or perpetual securities and for general corporate purposes.

CAPITALIZATION

The following table sets forth, in accordance with PFRS, the Company's total capitalization as of June 30, 2020 and as adjusted to give effect to the issuance of the Securities.

The table should be read in conjunction with the SMC Global Power's condensed consolidated interim financial statements as of June 30, 2020 and the notes thereto, included in this Offering Circular.

	As of June 30, 2020		As of June 30, 2020	
	Actual	Actual	As adjusted	As adjusted
	(₱)	(U.S.$)[1]	(₱)	(U.S.$)[1]
	(millions)			
Long-term debt — net of current maturities and debt issue costs	208,498.8	4,184.2	208,498.8	4,184.2
Equity:				
Capital stock	1,062.5	21.3	1,062.5	21.3
Additional paid-in capital	2,490.0	50.0	2,490.0	50.0
Senior perpetual capital securities[2]				
Issued and outstanding[3]	96,058.2	1,927.7	96,058.2	1,927.7
Securities to be issued	—	—	19,812.4	397.6
Redeemable perpetual securities	32,751.6	657.3	32,751.6	657.3
Undated subordinated capital securities	13,823.5	277.4	13,823.5	277.4
Equity reserves	(3,032.0)	(60.8)	(3,032.0)	(60.8)
Retained earnings	43,172.8	866.4	43,172.8	866.4
Non-controlling interest	1,005.9	20.2	1,005.9	20.2
Total equity	187,332.4	3,759.4	207,144.8	4,157.0
Total capitalization[4]	395,831.1	7,943.6	415,643.5	8,341.2

Notes:

(1) *Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BAP closing rate on June 30, 2020 of ₱49.83 to U.S.$1.00.*

(2) *Amounts are presented net of commissions.*

(3) *Includes the (i) U.S.$500 million senior perpetual capital securities issued in April 2019 and the further issue of U.S.$300 million senior perpetual capital securities issued in July 2019, consolidated into and forming a single series with the April 2019 issuance; (ii) the U.S.$500 million senior perpetual capital securities issued in November 2019; and (iii) the U.S.$600 million senior perpetual capital securities issued in January 2020.*

(4) *Total capitalization constitutes long-term indebtedness (net of current portion of long-term debt) and equity.*

Other than as described above, there has been no material change in the capitalization of SMC Global Power since June 30, 2020.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The selected historical consolidated statement of financial position data as of December 31, 2017, December 31, 2018 and December 31, 2019 and selected historical consolidated statement of income and cash flow data for the years ended December 31, 2017, December 31, 2018 and December 31, 2019 set forth below have been derived from, and should be read in conjunction with, the audited consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Offering Circular. The selected historical consolidated statement of financial position data as of June 30, 2020 and selected historical consolidated statement of income and cash flow data for the six months ended June 30, 2019 and June 30, 2020, respectively set forth below, have been derived from, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Offering Circular.

The consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2017, 2018 and 2019 were audited by KPMG. The condensed consolidated interim financial statements of SMC Global Power as of June 30, 2020 and for the six months ended June 30, 2019 and 2020 were reviewed by KPMG.

Unless otherwise stated, SMC Global Power has presented its consolidated financial results under PFRS.

Potential investors should read the following data together with the more detailed information contained in "Management's Discussion and Analysis of Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Offering Circular. The following data is qualified in its entirety by reference to all of that information.

Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BAP closing rate on June 30, 2020 of ₱49.83 to U.S.$1.00.

CONSOLIDATED STATEMENT OF INCOME DATA

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	₱	₱	₱	(in millions) U.S.$	₱	₱	U.S.$
Revenues	82,790.6	120,102.8	135,060.0	2,710.4	72,510.7	57,176.5	1,147.4
Costs and Expenses							
Cost of power sold:							
Energy fees	23,726.5	25,423.5	26,417.1	530.1	14,842.7	11,175.0	224.3
Coal, fuel oil and other consumables	13,039.1	32,563.7	31,362.5	629.4	17,989.2	12,578.4	252.4
Power purchases	10,725.5	11,181.2	21,434.8	430.2	11,246.4	5,533.6	111.1
Depreciation and amortization	5,842.4	9,108.9	9,651.5	193.7	4,748.7	5,015.8	100.7
Plant operations and maintenance fees	491.8	2,541.0	2,892.3	58.0	1,399.5	1,890.6	37.9
Selling and administrative expenses	4,689.0	6,110.2	7,348.2	147.5	3,899.6	2,863.0	57.5
	58,514.3	86,928.5	99,106.4	1,988.9	54,126.2	39,056.4	783.8
Income from operations	24,276.3	33,174.3	35,953.7	721.5	18,384.5	18,120.1	363.6
Interest income	460.9	661.2	1,585.5	31.8	668.7	726.8	14.6
Equity in net earnings (losses) of associates and joint ventures — net	(40.4)	(471.2)	(391.1)	(7.8)	(22.0)	(393.7)	(7.9)
Interest expense and other financing charges	(13,244.6)	(17,616.1)	(19,720.7)	(395.8)	(10,304.2)	(9,368.3)	(188.0)
Other income (charges) — net	2,944.2	(3,546.6)	4,199.3	84.3	2,220.2	4,059.2	81.5
Income before income tax	14,396.4	12,201.6	21,626.6	434.0	10,947.2	13,144.1	263.8
Income tax expense — net	6,179.5	3,901.5	7,263.1	145.8	3,684.5	4,081.0	81.9
Net income	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
Attributable to:							
Equity holders of the Parent Company	8,216.9	8,281.8	14,370.5	288.4	7,273.0	9,049.8	181.6
Non-controlling interest	—	18.3	(7.0)	(0.1)	(10.3)	13.3	0.3
	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
Earnings per common share attributable to equity holders of the Parent Company (Basic/Diluted)	₱ 4.11	₱ 2.67	₱ 5.21	U.S. $ 0.10	₱ 3.39	₱ 2.67	U.S.$ 0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31,				As of June 30,		
	2017	2018	2019		2019	2020	
	(Audited)			(in millions)	(Unaudited)		
	₱	₱	₱	U.S.$	₱	₱	U.S.$
ASSETS							
Current Assets							
Cash and cash equivalents	28,655.4	28,511.9	79,954.2	1,604.5	63,091.2	92,995.1	1,866.2
Trade and other receivables — net	20,435.1	33,046.7	29,989.4	601.8	34,368.5	37,651.5	755.6
Inventories	3,147.7	5,294.6	5,085.4	102.1	4,106.0	4,942.8	99.2
Prepaid expenses and other current assets	17,791.8	21,761.7	23,589.6	473.4	21,582.5	25,284.6	507.4
Total Current Assets	70,030.0	88,614.9	138,618.7	2,781.8	123,148.2	160,874.0	3,228.5
Noncurrent Assets							
Investments and advances — net	16,621.1	12,149.0	11,000.8	220.8	11,228.8	10,672.1	214.2
Property, plant and equipment — net	250,961.3	312,315.4	150,344.0	3,017.1	144,769.3	159,382.5	3,198.5
Right-of-use assets — net	—	—	166,517.3	3,341.7	166,915.4	165,220.3	3,315.7
Deferred exploration and development costs	699.0	705.5	710.8	14.3	707.9	712.8	14.3
Intangible assets and goodwill — net	2,594.2	72,613.4	72,771.3	1,460.4	72,666.8	72,795.3	1,460.9
Deferred tax assets	1,316.9	1,137.6	1,128.8	22.7	1,005.2	965.7	19.4
Other noncurrent assets — net	7,950.5	6,314.4	16,027.4	321.6	12,537.4	16,490.1	330.9
Total Noncurrent Assets	280,143.0	405,235.3	418,500.3	8,398.6	409,830.7	426,238.8	8,553.9
	350,173.0	493,850.2	557,119.0	11,180.4	532,978.9	587,112.8	11,782.3
LIABILITIES AND EQUITY							
Current Liabilities							
Loans payable	5,930.0	8,675.7	2,278.6	45.7	2,305.8	1,744.1	35.0
Accounts payable and accrued expenses	31,074.8	31,109.9	35,402.9	710.5	33,866.1	40,658.6	815.9
Lease liabilities — current portion	16,844.4	19,659.6	23,085.1	463.3	21,284.2	23,671.6	475.0
Income tax payable	151.9	310.9	214.8	4.3	308.0	438.2	8.8
Current maturities of long-term debt — net of debt issue costs	1,139.6	4,939.5	6,036.2	121.1	4,896.6	16,712.8	335.4
Total Current Liabilities	55,140.7	64,695.6	67,017.5	1,344.9	62,660.8	83,225.3	1,670.2
Noncurrent Liabilities							
Long-term debt — net of current maturities and debt issue costs	89,589.1	202,025.8	220,762.9	4,430.3	221,822.5	208,498.8	4,184.2
Deferred tax liabilities	7,324.1	8,180.1	13,197.7	264.9	10,446.7	16,079.5	322.7
Finance lease liabilities — net of current portion	137,949.3	122,347.4	101,117.6	2,029.3	110,679.3	89,682.9	1,799.8
Other noncurrent liabilities — net of current portion	404.3	843.6	1,598.6	32.1	862.7	2,294.0	46.0
Total Noncurrent Liabilities	235,266.8	333,396.9	336,676.7	6,756.5	343,811.2	316,555.1	6,352.7
Total Liabilities	290,407.5	398,092.5	403,694.2	8,101.4	406,472.0	399,780.4	8,022.9
Equity							
Capital stock	1,062.5	1,062.5	1,062.5	21.3	1,062.5	1,062.5	21.3
Additional paid-in capital	2,490.0	2,490.0	2,490.0	50.0	2,490.0	2,490.0	50.0
Senior Perpetual Capital Securities	—	—	65,885.6	1,322.2	25,802.6	96,058.2	1,927.7
Redeemable perpetual securities	—	32,751.6	32,751.6	657.3	32,751.6	32,751.6	657.3
Undated subordinated capital securities	26,933.6	26,933.6	13,823.5	277.4	26,933.6	13,823.5	277.4
Equity reserves	761.6	618.3	(2,568.4)	(51.5)	(24.9)	(3,032.0)	(60.8)
Retained earnings	28,517.8	31,901.7	38,987.4	782.4	36,504.4	43,172.8	866.4
	59,765.5	95,757.7	152,432.2	3,059.0	125,519.8	186,326.5	3,739.2
Non-controlling interest	—	—	992.6	19.9	987.2	1,005.9	20.2
Total Equity	59,765.5	95,757.7	153,424.8	3,079.0	126,506.9	187,332.4	3,759.4
	350,173.0	493,850.2	557,119.0	11,180.4	532,978.9	587,112.8	11,782.3

CONSOLIDATED STATEMENT OF CASH FLOWS DATA

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(Audited)				(Unaudited)		
	(in millions)						
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net cash flows provided by operating activities	21,845.3	15,259.2	29,959.0	601.2	13,430.3	13,160.5	264.1
Net cash flows provided by (used in) investing activities	(16,279.3)	(102,034.8)	(18,515.2)	(371.6)	(7,566.7)	(11,934.2)	(239.5)
Net cash flows provided by (used in) financing activities	1,526.7	86,529.3	40,282.5	808.4	29,051.1	12,841.6	257.7
Effect of exchange rate changes on cash and cash equivalents	71.3	102.8	(284.1)	(5.7)	(335.3)	(1,027.1)	(20.6)
Net increase (decrease) in cash and cash equivalents	7,164.0	(143.5)	51,442.3	1,032.4	34,579.4	13,040.9	261.7
Cash and cash equivalents at beginning of period	21,491.4	28,655.4	28,511.9	572.2	28,511.9	79,954.2	1,604.5
Cash and cash equivalents at end of period	28,655.4	28,511.9	79,954.2	1,604.5	63,091.2	92,995.1	1,866.2

ADDITIONAL FINANCIAL AND OPERATING DATA

The tables below provide summary additional financial and operating data for the periods indicated:

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(in millions unless indicated otherwise)						
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net income	8,216.9	8,300.1	14,363.5	288.3	7,262.7	9,063.1	181.9
EBITDA(1)	7,654.4	10,716.9	8,297.3	166.5	4,987.4	6,564.1	131.7
Net debt(2)	187,173.3	269,349.0	217,522.6	4,365.3	240,716.8	195,257.6	3,918.5
Net debt to Consolidated total equity(3)	2.97	2.80	1.44	1.44	1.92	1.07	1.07
Interest coverage ratio(4)	2.88	2.52	2.35	2.35	2.38	2.74	2.74

Notes:

(1) Calculated as (a) net income (excluding items between any or all of the Company and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to PSALM. EBITDA should not be viewed in isolation or as an alternative to financial measures calculated in accordance with PFRS. See "Presentation of Financial Information" and "Non-PFRS Financial Measures."

(2) Net debt represents the consolidated debt of the Company and its subsidiaries — net of debt issue costs less cash and cash equivalents and including PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries' project finance debt. The ring-fenced subsidiaries are SCPC, SMCPC and PVEI.

(3) The Company maintains a Net debt to Consolidated total equity ratio of not more than 3.25x. The Net debt to Consolidated total equity ratio is computed by dividing Net debt over Consolidated total equity. Consolidated total equity is Equity as adjusted to exclude Retained earnings (deficit) of ring-fenced subsidiaries.

(4) The Company maintains an Interest coverage ratio of not less than 2.25x. The Interest coverage ratio is computed by dividing the most recent four quarterly period consolidated EBITDA (gross of PSALM payments and excluding ring-fenced subsidiaries) over the most recent four quarterly period consolidated interest expense (excluding ring-fenced subsidiaries).

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
Electricity sold (**GWh**)	17,226.9	23,863.6	28,225.0	N/A	14,635.3	12,837.4	N/A
of which: bilateral offtake agreements	15,706.9	20,273.3	26,246.1	N/A	13,634.8	11,780.1	N/A
of which: WESM sales	1,520.0	3,590.3	1,978.9	N/A	1,000.5	1,057.3	N/A
Electricity bought on WESM (**GWh**)	683.8	1,144.1	1,972.9	N/A	759.0	946.1	N/A
Average realized/paid electricity prices (**₱/MWh**)							
For electricity sold under bilateral offtake agreements	4,926.4	5,388.5	4,806.6	96.5	4,933.4	4,606.7	92.4
For electricity sold on WESM	2,939.1	3,024.8	4,135.2	83.0	4,916.2	2,650.8	53.2
For electricity purchased from WESM	4,753.0	4,342.7	5,712.7	114.6	7,800.5	2,851.0	57.2

CALCULATION OF EBITDA

The following table presents a reconciliation of EBITDA[1] to net income for each of the periods indicated.

	For the years ended December 31,				For the six months ended June 30,		
	2017	2018	2019		2019	2020	
	(in millions)						
	₱	₱	₱	U.S.$	₱	₱	U.S.$
Net income[1]	9,215.1	5,094.5	9,539.2	191.4	5,466.6	7,257.0	145.6
Add:							
Income tax expense	5,352.4	4,638.2	7,218.9	144.9	3,656.8	4,113.9	82.6
Finance cost	11,747.7	14,919.7	15,558.5	312.2	8,455.2	7,187.9	144.2
Interest income	(368.5)	(463.5)	(1,428.3)	(28.7)	(595.9)	(673.4)	(13.5)
Depreciation	5,607.7	6,898.6	6,959.2	139.7	3,481.7	3,509.8	70.4
Less:							
Foreign exchange gains (loss)	(975.0)	(5,345.0)	2,852.4	57.2	2,106.0	325.4	6.5
Aggregate fixed payments made to PSALM[2]	24,875.0	25,715.6	26,697.8	535.8	13,371.0	14,505.7	291.1
Gain on Sale of Investment	—	—	—	—	—	—	—
EBITDA	7,654.4	10,716.9	8,297.3	166.5	4,987.4	6,564.1	131.7

Notes:

(1) Amounts exclude items attributable to ring-fenced subsidiaries. Subsidiaries with project debts were nominated as ring-fenced subsidiaries. If the amounts from the ring-fenced subsidiaries were to be included, the EBITDA would amount to ₱9,013.8 million, ₱18,108.2 million and ₱ 20,149.0 million (U.S.$404.4 million) for the years ended December 31, 2017, December 31, 2018 and December 31, 2019, and ₱10,046.1 million and ₱12,279.1 million (U.S.$246.4 million) for the six months ended June 30, 2019 and June 30, 2020, respectively.

(2) Aggregate fixed payments made to PSALM is reflected in the Statement of Cash Flows as Payments of Finance Lease Liabilities.

CAPITAL RESOURCES

Capital Funding and Debt Maturity Profile

As of June 30, 2020, SMC Global Power had cash and cash equivalents of ₱92,995 million, total outstanding short-term debt of ₱16,713 million and total outstanding long-term debt (excluding current portion of long-term debt) of ₱208,499 million.

The following table sets forth a summary of the maturity profile of the Company's outstanding long-term debt (excluding non-recourse project debt) for the years 2020 to 2024 and beyond as of June 30, 2020:

Payments Due by Period	Amount
	(in millions of ₱)
2020	—
2021	16,119
2022	23,758
2023	44,005
2024 and beyond	45,623
Total	129,505

The following table presents the Company's sources of funding as of June 30, 2020:

Funding Source	Amount
	(in millions of ₱)
Term loans	48,996
Non-recourse project debt	38,757
Ring-fenced project debt	59,829
Retail bonds	79,373
Capital stock	3,553
Undated subordinated capital securities	13,823
Redeemable perpetual securities	32,752
Senior perpetual capital securities	96,058
Total	373,141

Capital Expenditures

Over the past several years, SMC Global Power has made significant capital expenditures in connection with the Davao and Limay Greenfield Power Plant projects. In particular, for the period from 2013 to 2017, the Company's capital expenditures amounted to approximately ₱94,029 million. In 2018, 2019 and the six months ended June 30, 2020, the Company's capital expenditures were ₱6,050 million, ₱10,117 million and ₱11,426 million, respectively, which primarily related to expenditures for Unit 3 of the Masinloc Power Plant, the Mariveles Greenfield Power Plant and BESS projects.

The Company's estimated capital expenditures for its major expansion projects are as follows:

- BESS projects (1,000 MWh): ₱52,017 million
- Mariveles Greenfield Power Plant (600 MW): ₱65,243 million
- Masinloc Unit 4 (350 MW): ₱30,915 million
- Ilijan Expansion Plant (850 MW): ₱38,250 million

These capital expenditures are expected to be funded by a combination of internal cash generation, equity and external financing sources, including perpetual securities and project finance debt. The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

Based on the Company's estimates, capital expenditures needed generally amount to U.S.$1 million/MWh for BESS projects, U.S.$2.2 million/MW for coal-fired plants and U.S.$0.9 million/MW to U.S.$1.1 million/MW for LNG plants.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the section entitled "Selected Financial Information and Other Data" and the Company's audited consolidated financial statements as of and for the years ended December 31, 2017, 2018 and 2019 and its unaudited condensed consolidated financial statements as of, and for the six months ended June 30, 2020 (with comparative figures for the six months ended June 30, 2019), including the notes thereto, included elsewhere in this Offering Circular. All necessary adjustments to present fairly the results of operations of the Company have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with the Philippine Financial Reporting Standards have been omitted.

This discussion contains forward-looking statements and reflects the current views of the Company with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Offering Circular.

Translations from Philippine Pesos to U.S. dollars for the convenience of the reader have been made at the BAP closing rate on June 30, 2020 of U.S.$1.00 to ₱49.83.

RESULTS OF OPERATIONS

Description of Certain Components of Results of Operations

Revenues

Revenues refers to the sale of power and electricity, which is derived substantially from offtake agreements. It is recognized in the period when actual power or capacity is generated, transmitted and sold to the customers, net of related discounts and adjustments. Retail and other power-related services is revenue from the supply of power to the customers. The Uniform Filing Requirements on the rate unbundling released by the ERC specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT, local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of SMC Global Power's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Cost of Power Sold

Cost of power sold consists primarily of (i) cost of coal, fuel oil and other consumables (which consists primarily of the cost of purchasing coal for delivery to the Sual Power Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant), (ii) energy fees, which reflect the variable component of the monthly payments due from SMC Global Power to PSALM under the IPPA Agreements; (iii) power purchased from external sources, which represents the cost of purchasing power from the WESM and other external generators and distribution wheeling service fees incurred by RES-licensed companies (SMELC, SCPC and MPPCL); (iv) depreciation expenses relating to the Sual Power Plant, San Roque Power Plant and Ilijan Power Plant under the finance lease accounting method applicable to the IPPA Agreements and Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant and amortization expenses relating to the concession agreement with ALECO; and (v) plant operations and maintenance fees for the operation of the Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant.

Selling and Administrative Expenses

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and June 30, 2020, selling and administrative expenses consist principally of: (i) taxes and licenses, (ii) salaries, wages and benefits, (iii) management fees, (iv) outside services, (v) professional fees, (vi) donations, (vii) corporation social program, (viii) depreciation and amortization, (ix) repairs and maintenance, (x) market fees, (xi) insurance, (xii) impairment losses on trade receivables, and (xiii) rent.

Other Income (Charges)

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and June 30, 2020, other income (charges) primarily consists of (i) PSALM monthly fees reduction, (ii) construction revenue, (iii) construction cost, (iv) foreign exchange losses — net and (v) miscellaneous income (charges) — net. For the six months ended June 30, 2020, other income (charges) also includes the settlement from third party contractors.

Each of the fixed monthly payments made under SMC Global Power's IPPA Agreements is apportioned between finance cost and reduction of the related finance lease liability so as to achieve a constant rate of interest on the remaining balance of the finance lease liability. Foreign exchange gains and losses result from the effect of exchange rate movements on SMC Global Power's foreign currency-denominated monetary assets and liabilities.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenues

Revenues for the six months ended June 30, 2020 amounted to ₱57,176.5 million (U.S.$1,147.4 million), 21.1% or ₱15,334.2 million lower than ₱72,510.7 million for the same period in 2019, as offtake volume of 12,837 GWh posted a 12% decline from same period last year. This was primarily due to the: (i) deferral of the commencement to supply Meralco under MPPCL's 260 MW extended contract pending approval from the ERC, and under the 290 MW mid-merit PSA of SPPC, which was issued a provisional approval by the ERC only on March 16, 2020, (ii) curtailed demand by industrial and contestable customers during the ECQ period, which is gradually improving with the reopening of economic activities and compensated by improved DU customers' demand, (iii) lower contract rates for the new Meralco baseload PSAs that took effect on December 26, 2019 compared to the power supply contracts that expired on December 25, 2019, and (iv) lower average spot prices for Luzon-based power plants offset by take-or-pay arrangements with the Company's DU customers.

Cost of Power Sold

Cost of power sold likewise decreased by 27.9% or ₱14,033.2 million, from ₱50,226.6 million for the six months ended June 30, 2019 to ₱36,193.4 million (U.S.$726.3 million) for the same period in 2020. The decrease was mainly attributable to the following: (i) lower average cost of coal prices for Sual, Limay and Masinloc Power Plants as coal indices continue to decline, (ii) lower average cost of spot purchases, and (iii) lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant, partially offset by higher costs incurred by SCPC on account of the full-semester operations of Unit 4 of the Limay Greenfield Power Plant, with a capacity of 150 MW, which commenced commercial operations on July 26, 2019.

Selling and Administrative Expenses

Selling and administrative expenses decreased by 26.6% or ₱1,036.6 million, from ₱3,899.6 million for the six months ended June 30, 2019 to ₱2,863.0 million (U.S.$57.5 million) for the same period in 2020. The decrease was mainly due to: (i) lower contributions to registered donee institutions for programs on education and environment, (ii) lower impairment losses recognized on trade and other receivables by the Company, and (iii) lower regular expenses such as, contracted services, fuel and oil, and travel and transportation as personnel's official travels were restricted during the quarantine due to the COVID-19 pandemic, and offset by contributions for COVID-19 community response initiatives.

Income from Operations

With lower fuel costs and power dispatch strategies implemented, consolidated income from operations of ₱18,120.1 million (U.S.$363.6 million) for the six months ended June 30, 2020, fell slightly by 1.4% or ₱264.3 million, from ₱18,384.5 million for same period in 2019.

Other Income (Charges) — Net

Interest income increased by 8.7% or ₱58.1 million, from ₱668.7 million in the six months ended June 30, 2019 to ₱726.8 million (U.S.$14.6 million) for the same period in 2020 driven primarily by higher average balance of cash and cash equivalents from the net proceeds of the U.S.$600.0 million senior perpetual capital securities issuance in January 2020.

Interest expense and other financing charges decreased by 9.1% or ₱935.8 million from ₱10,304.2 million in the six months ended June 30, 2019 to ₱9,368.3 million (U.S.$188.0 million) for the same period in 2020. This was mainly due to: (i) lower interest recognized on the IPPA entities' finance lease liabilities with the declining principal balance, (ii) higher capitalized borrowing cost of MPPCL for its ongoing construction projects, and (iii) net decrease in borrowing costs of SMC Global Power with the pre-termination of its U.S.$150 million five-year term loan, to mature in March 2023, and settlement of its U.S.$120 million short-term loan in April 2019, partially offset by higher interest expense of SCPC with the cessation of the capitalization of its borrowing costs since the start of the commercial operations of Limay Greenfield Power Plant Unit 4 in July 2019.

Equity in net losses of an associate and joint ventures further declined from loss of ₱22.0 million for the first six months ended June 30, 2019 to loss of ₱393.7 million (U.S.$7.9 million) for the same period in 2020 due to the share in higher net losses of AHC.

Other income increased by 82.8% or ₱1,839.1 million from ₱2,220.2 million in the six months ended June 30, 2019 to ₱4,059.2 million (U.S.$81.5 million) for the same period in 2020 due primarily to the recognition of ₱3,825.5 million in settlement received from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts, partially offset by lower net foreign exchange gain by ₱1,861.4 million, from gain of ₱2,093.5 million in the six months ended June 30, 2019 to gain of ₱232.1 million in the six months ended June 30, 2020, arising mainly from the revaluation of the Company's U.S. dollar-denominated liabilities, as a result of the slight appreciation of the Philippine peso against the U.S. dollar during the first semester of 2020 by ₱0.81 (from ₱50.64 to ₱49.83) versus the significant appreciation of Philippine peso for the same period last year by ₱1.34 (from ₱52.58 to ₱51.24).

Income Before Income Tax

As a result of the foregoing factors, income before income tax increased by 20.1% or ₱2,197.0 million, from ₱10,947.2 million recorded in the six months ended June 30, 2019 to ₱13,144.1 million (U.S.$ 263.8 million) for the same period in 2020.

Income Tax Expense

Income tax expense increased by 10.8% or ₱396.5 million from ₱3,684.5 million in the six months ended June 30, 2019 to ₱4,081.0 million (U.S.$81.9 million) for the same period in 2020. The increase was due to higher provision for deferred income tax expense recognized by (a) SMEC on the temporary difference of monthly fixed payments to PSALM over the finance lease liability-related expenses, and (b) MPPCL on its unrealized foreign exchange gain; partially offset by lower provision for current income tax recognized by SPPC due to lower taxable income.

Net Income

Consequently, the consolidated net income of the Company for the first semester increased by 24.8% or ₱1,800.5 million from ₱7,262.7 million in the six months ended June 30, 2019 to ₱9,063.1 million (U.S.$181.9 million) for the same period in 2020. Unrealized foreign exchange gain decreased from ₱2,605 million gain recognized in the six months ended June 30, 2019 to ₱952 million gain for the same period in 2020 brought by the movements of the Philippine peso against the U.S. dollar.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

Revenues for the year ended December 31, 2019 increased by 12.5% or ₱14,957.2 million, from ₱120,102.8 million in the year ended December 31, 2018, reflecting the sale of power registering at 23,864 GWh, to ₱135,060.0 million (U.S.$2,710.4 million) in the year ended December 31, 2019, reflecting the sale of 28,112.0 GWh of power. The increase was primarily driven by: (i) the revenues contributed by the full-year generation from the Masinloc Power Plant acquired on March 20, 2018, (ii) the revenues from the full-year operations of Davao Greenfield Power Plant Unit 2 and Limay Greenfield Power Plant Unit 3, which commenced commercial operations on February 26, 2018 and March 26, 2018, respectively, (iii) the additional revenues from SCPC's Unit 4 which started commercial operations on July 26, 2019, (iv) the increase in revenues of SPPC brought by higher plant dispatch of Ilijan Power Plant due to higher Meralco nominations coupled with higher average realization price; and partly offset by (a) the decline in revenues of SMEC on account of lower average realization price for its bilateral sales, and (b) the decline in spot sales volume of the Company**.**

Cost of Power Sold

Cost of power sold likewise increased by 13.5% or ₱10,939.9 million, from ₱80,818.3 million in the year ended December 31, 2018 to ₱91,758.2 million (U.S.$1,841.4 million) in the year ended December 31, 2019. The increase was attributable mainly to the following: (i) costs incurred by the Masinloc Power Plant during its full-year operations in 2019; (ii) higher costs incurred from the full-year operations of the Davao Greenfield Power Plant Unit 2 and Limay Greenfield Power Plant Unit 3, with a combined capacity of 300 MW; (iii) costs incurred for the five-month operations of the SCPC's Unit 4; (iv) higher spot purchases of MPPCL, SMEC and SCPC; and (v) higher energy fees due to longer operating hours resulting from lower outages of the Sual Power Plant and higher average natural gas price for the Ilijan Power Plant.

Selling and Administrative Expenses

Selling and administrative expenses increased by 20.2% or ₱1,238.0 million, from ₱6,110.2 million in the year ended December 31, 2018 to ₱7,348.2 million (U.S.$147.5 million) in the year ended December 31, 2019. The increase was attributable mainly to the following: (i) full-year operations of Masinloc Power Plant (acquired in March 2018), (ii) higher personnel expenses, and (iii) contributions to registered donee institutions for various programs on education and environment.

Income from Operations

As a result, consolidated income from operations grew by 8.4% or ₱2,779.4 million, from ₱33,174.3 million in the year ended December 31, 2018 to ₱35,953.7 million (U.S.$721.5 million) in the year ended December 31, 2019.

Other Income (Charges) — Net

Interest expense and other financing charges increased by 11.9% or ₱2,104.6 million, from ₱17,616.1 million in the year ended December 31, 2018 to ₱19,720.7 million (U.S.$395.8 million) in the year ended December 31, 2019, due mainly to higher interest expense recognized on: (i) the long and short- term borrowings to partially finance the Masinloc acquisition and to fund the capital expenditures of MPGC and its BESS projects; (ii) project financing of SCPC and SMCPC; (iii) existing long-term borrowings of MPPCL; and partially offset by lower interest expense on the IPPA entities' finance lease liabilities.

Interest income increased by 140.0% or ₱924.3 million, from ₱661.2 million in the year ended December 31, 2018 to ₱1,585.5 million (U.S.$31.8 million) in the year ended December 31, 2019, resulting from higher average balance of cash and cash equivalents with the net proceeds received from the issuances of the ₱30,000 million fixed rate bonds and U.S.$1,300 million senior perpetual capital securities in 2019.

Equity in net losses of associates and joint ventures, primarily from the operations of AHC, decreased by ₱80.1 million from ₱471.2 million in the year ended December 31, 2019 to ₱391.1 million (U.S.$ 7.8 million) in the year ended December 31, 2019.

Other income (charges) significantly increased due primarily to the net foreign exchange differential, recognized on U.S. dollar-denominated liabilities, which made a complete turnaround from the ₱5,315.7 million loss in the year ended December 31, 2018 to ₱2,839.6 million gain in the year ended December 31 2019, as a result of the appreciation of the Philippine peso against the U.S. dollar for the year ended December 31, 2019 by ₱1.94 (from ₱52.58 to ₱50.64) as compared to the depreciation for the year ended December 31, 2018 by ₱2.65 (from ₱49.93 to P52.58).

Income Before Income Tax

As a result of the foregoing factors, income before income tax increased by 77.2% or ₱9,425.0 million, from ₱12,201.6 million in the year ended December 31, 2018 to ₱21,626.6 million (U.S.$434.0 million) in the year ended December 31, 2019.

Income Tax Expense

Income tax expense increased by 86.2% or ₱3,361.6 million, from ₱3,901.5 million in the year ended December 31, 2018 to ₱7,263.1 million (U.S.$145.8 million) in the year ended December 31, 2019. The net increase mainly resulted from the following: (i) higher provision for deferred income tax expenses recognized by the IPPA entities on the temporary differences of their monthly fixed payments PSALM over the finance lease liability-related expenses, particularly on foreign exchange differential; (ii) higher deferred income tax expenses of MPPCL, SCPC and SMCPC due to movements on their temporary differences such as foreign exchange translations and capitalized borrowing costs; and (iii) lower provision for current income tax due mainly to the decline of the operating income of SMEC.

Net Income

Consequently, the consolidated net income of the Company grew by 73.1% or ₱6,063.4 million, from ₱8,300.1 million in the year ended December 31, 2018 to ₱14,363.5 million (U.S.$288.3 million) in the year ended December 31, 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Revenues for the year ended December 31, 2018 increased by 45.1% or ₱37,312.2 million, from ₱82,790.6 million in the year ended December 31, 2017, reflecting the sale of 17,227 GWh of power, to ₱120,102.8 million in the year ended December 31, 2018, reflecting the sale of 23,864 GWh of power. The increase in revenue was mainly driven by (i) revenues contributed by Masinloc Power Plant from March 2018 onwards in the amount of ₱19,459.3 million, or 52.2% of the increase in revenues, reflecting the sale of 3,934 GWh of power; (ii) additional revenues from the commercial operations of Units 1, 2 and 3 of the Limay Greenfield Power Plant (starting in May 2017, September 2017 and March 2018, respectively) and Units 1 and 2 of the Davao Greenfield Power Plant (starting in July 2017 and February 2018, respectively); (iii) additional contracted customers of SMELC; and (iv) higher average prices for Sual Power Plant and Ilijan Power Plant bilateral and spot offtake volumes.

Cost of Power Sold

Cost of power sold likewise increased by 50.1% or ₱26,993.0 million, from ₱53,825.3 million in the year ended December 31, 2017 to ₱80,818.3 million in the year ended December 31, 2018. The increase was attributable mainly to the following: (i) inclusion of cost of power sold, amounting to ₱13,347.8 million, or 49.4% of the increase in cost of power sold, incurred by the newly acquired Masinloc Power Plant which became a subsidiary of SMC Global Power only in 2018; (ii) costs incurred by SMCPC and SCPC due to the start of commercial operations of its power plants; and (iii) higher power distribution costs incurred by RES-licensed companies (SMELC and SCPC) due to the increase in their customers.

Cost of coal, fuel oil and other consumables increased by 149.7% or ₱19,524.6 million, from ₱13,039.1 million in the year ended December 31, 2017 to ₱32,563.7 million in the year ended December 31, 2018, primarily due to the commercial operations of Units 1, 2 and 3 of the Limay Greenfield Power Plant, Units 1 and 2 of the Davao Greenfield Power Plant and the newly acquired Masinloc Power Plant (contributing ₱8,824.3 million, or 45.2% of the total increase in cost of coal, fuel oil and other consumables).

Energy fees increased by 7.2% or ₱1,697.0 million, from ₱23,726.5 million in the year ended December 31, 2017 to ₱25,423.5 million in the year ended December 31, 2018. This increase was primarily due to the increase in net generation of San Roque Power Plant brought by higher average reservoir level and having been tagged as a must-run unit resulting from persistent storms and rainfall from August to October 2018.

Power purchased from external sources increased by 4.2% or ₱455.7 million, from ₱10,725.5 million in the year ended December 31, 2017 to ₱11,181.2 million in the year ended December 31, 2018. This increase mainly relates to the inclusion of power purchases incurred by the Masinloc Power Plant from March 2018 onwards in the amount of ₱2,022.9 million, higher power purchases and distribution wheeling services fees incurred by SMELC, SCPC, SMCPC and APEC due to increases in customers, in the amount of ₱2,411.6 million, offset by the decline in the power purchases of SMEC in the amount of ₱4,087.3 million as a result of going back to normal operations of Unit 2 after its extended outage in 2017 from June 14 to November 10.

Depreciation and amortization increased by 55.9% or ₱3,266.5 million, from ₱5,842.4 million in the year ended December 31, 2017 to ₱9,108.9 million in the year ended December 2018, primarily on account of the commercial operations of Limay Greenfield Power Plant and Davao Greenfield Power Plant and the acquisition of Masinloc Power Plant (contributing ₱1,519.9 million or 46.5% of the total increase in depreciation and amortization expenses).

Plant operations and maintenance fees increased by 416.7% or ₱2,049.2 million, from ₱491.8 million in the year ended December 31, 2017 to ₱2,541.0 million in the year ended December 31, 2018. The increase is attributable to the start of the commercial operations of Limay Greenfield Power Plant and Davao Greenfield Power Plant and the Masinloc Power Plant, which was acquired in March 2018 and contributed ₱980.7 million or 47.9% of the total increase in plant operations and maintenance fees.

Selling and Administrative Expenses

Selling and administrative expenses increased by 30.3% or ₱1,421.2 million, from ₱4,689.0 million in the year ended December 31, 2017 to ₱6,110.2 million in the year ended December 31, 2018. The increase was due mainly to the operating expenses incurred by the newly acquired MPPCL in the amount of ₱1,460.6 million, and additional professional fees incurred for legal and financial advisory services rendered by third parties which were engaged by SMC Global Power for the acquisition of the Masinloc Group in March 2018.

Income From Operations

As a result of the foregoing, consolidated income from operations ended 36.7% or ₱8,898.0 million higher, from ₱24,276.3 million in the year ended December 31, 2017 to ₱33,174.3 million in 2018.

Other Income (Charges) — Net

Interest expense and other financing charges increased by 33.0% or ₱4,371.5 million, from ₱13,244.6 million in the year ended December 31, 2017 to ₱17,616.1 million in the year ended December 31, 2018 due to the following: (i) higher interests recognized by SMC Global Power on its redenominated loans and additional long-term borrowings obtained to finance its acquisition of the Masinloc Group; (ii) higher financing charges expensed by SCPC since the start of commercial operations of its Limay Greenfield Power Plant Units 1, 2 and 3, which were previously capitalized during the aforesaid units' construction; and (iii) financing charges incurred by the newly acquired MPPCL from its short and long-term borrowings in the amount of ₱878.4 million or 20.1% of the total increase in interest expense and other financing charges.

Interest income increased by 43.5% or ₱200.3 million, from ₱460.9 million in the year ended December 31, 2017 to ₱661.2 million in the year ended December 31, 2018, resulting from higher average balance of cash and cash equivalents during the year.

Equity in net losses was higher by ₱430.8 million, from ₱40.4 million in the year ended December 31, 2017 to ₱471.2 million in the year ended December 31, 2018, mainly on account of the significant net loss recognized by AHC in 2018 as against 2017 as a result of the unfavorable hydrological conditions and lower water allocations in the fourth quarter of 2018.

Other income (charges) declined mainly on account of the following (i) net foreign exchange differential, arising mainly from the Company's U.S. dollar-denominated liabilities, increased by 740.6% or ₱4,683.3 million, from ₱632.4 million loss in the year ended December 31, 2017 to ₱5,315.7 million loss in the year ended December 31, 2018 on account of the significant depreciation of the Philippine peso against the U.S. dollar in 2018 (from ₱49.93 to ₱52.58) as compared to the prior year (from ₱49.72 to ₱49.93) and the additional U.S. dollar-denominated long-term borrowings, amounting to U.S.$1,350 million, obtained by SMC Global Power to partly finance the acquisition of the Masinloc Group in March 2018 and (ii) lower PSALM monthly fees reduction income by 50.8% or ₱1,668.6 million due to lower outages of Sual Power Plant in 2018 versus 2017.

Income Before Income Tax

As a result of the foregoing factors, income before income tax decreased by 15.2% or ₱2,194.8 million, from ₱14,396.4 million in the year ended December 31, 2017 to ₱12,201.6 million in the year ended December 31, 2018.

Income Tax Expense

Income tax expense declined by 36.9% or ₱2,278.0 million, from ₱6,179.5 million in the year ended December 31, 2017 to ₱3,901.5 million in the year ended December 31, 2018, primarily because of lower income before tax and deferred income tax expense arising from the temporary differences related to finance lease liability-related expenses of the IPPA entities.

Net Income

Consequently, the consolidated net income of the Company was slightly higher by 1.0% or ₱83.2 million, from ₱8,216.9 million in the year ended December 31, 2017 to ₱8,300.1 million in the year ended December 31, 2018.

CRITICAL ACCOUNTING POLICIES

For a discussion of the critical accounting policies and significant accounting judgments and estimates of SMC Global Power please see Note 3 of the audited consolidated financial statements included in this Offering Circular and Note 3 of the unaudited interim condensed consolidated financial statements included in this Offering Circular.

In accounting for its IPPAs, Agreements with PSALM, SMC Global Power's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The management of SMC Global Power has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the IPPA Power Plants. Accordingly, each IPPA Agreement was accounted for as a finance lease and SMC Global Power recognized the IPPA Power Plants as finance lease liabilities at the present value of the agreed monthly payments to PSALM. Please see Notes 3, 4, 7 and 32 of the audited consolidated financial statements and Note 3 of the unaudited interim condensed consolidated financial statements included in this Offering Circular.

The information in this section has been derived from various Government and private publications, which have not been prepared or independently verified by SMC Global Power, the Joint Lead Managers or any of their respective affiliates or advisors. Certain information in this section regarding demand for electricity in the Philippines was derived from the DOE website (www.doe.gov.ph) and related DOE issuances and has been supplemented with information from the ERC and the ERC website (www.erc.gov.ph), the Philippine Statistics Authority, WESM, Company estimates and assumptions based on such information and other sources. SMC Global Power does not have any knowledge that such information from such sources is inaccurate in any material respect. The information may not be consistent with other information compiled within or outside the Philippines. The contents of www.doe.gov.ph and www.erc.gov.ph do not form part of and are not incorporated by reference into this Offering Circular.

OVERVIEW

The Philippine power industry was historically dominated by the state-owned NPC. Since the 1990s, the Government decided to restructure and promote the development of the Philippine power industry through private sector participation and has been privatizing its generation assets and capacity since December 2003.

The current framework of the Philippine power sector is governed by the EPIRA which was enacted in 2001. The Philippine power industry, following the passage of the EPIRA, has undergone major reforms. The EPIRA aims to improve the power sector in the Philippines by ensuring and accelerating total electrification of the country and providing a fairer, competitive landscape for power sector participants, resulting in a more efficient and transparent industry. Among other things, the EPIRA set out:

- The creation of the ERC, which is an independent quasi-judicial regulatory body under the EPIRA;
- Separation of the industry into generation, transmission, distribution and supply sectors;
- Break-up and privatization of generation assets of the NPC, and the privatization of transmission assets by PSALM;
- Removal of the monopoly distribution utilities that held on retailing electricity within their franchise areas to allow retail competition; and
- RCOA to distribution networks.

Philippine Power Industry Structure

The Philippine power industry has evolved into a competitive market with clear separation between generation, transmission, distribution and supply. Under the EPIRA, cross ownership in the transmission sector with the generation and distribution sectors is not allowed.

Sector	Details

Generation	• Generation companies are involved in converting fuel and other forms of energy into electricity
	• Generation companies compete with each other for contracts with distribution utilities or spot sales on the wholesale electricity spot market
	• Generation sector is largely deregulated and competition based largely on pricing
	• The generation sector consists of:
	  • NPC-owned and operated facilities
	  • NPC-owned and IPP-operated plants
	  • IPP-owned and operated plants
	  • IPPAs

Transmission	• The transmission network is responsible for transmitting electricity from power generators to electricity distributors and large end-users • The transmission sector is regulated and operated by a single transmission network owner and system operator respectively on a monopolistic structure • TransCo, which is owned by the Government, is the owner of the transmission network and is responsible for maintaining the reliability, adequacy, security, stability and integrity of the nationwide electrical grid. It is mandated to provide open and non-discriminatory access to its transmission system to all electricity users • The transmission of electricity through the transmission grid is subject to transmission wheeling charges • NGCP is a private consortium of Monte Oro Grid Resources, Calaca High Power Corporation and the State Grid Corporation of China. It holds the concession contract to operate, maintain and expand the transmission network
Distribution	• Distributors are responsible for distributing electric power off the transmission network to end-users and consist of private distribution utilities such as Meralco and the Visayan Electric Company, electric cooperatives and local Government units
Supply	• With the commencement of the RCOA, distribution utilities are required to unbundle their distribution operations from the supply operations which makes the supply function competitive in nature • Private suppliers licensed by ERC are allowed to carry out the supply function using the assets of the distribution utilities, subject to payment of regulated tariffs

POWER GENERATION OWNERSHIP

The ownership of various power generation assets in the Philippines can be subdivided into the following categories: (1) NPC-owned and operated facilities; (2) NPC-owned and IPP-operated plants ("**NPC-IPP**"); and (3) IPP-owned and operated plants ("**Non-NPC**").

The IPPAs are qualified private sector independent entities that administer and manage the contracted energy from the energy conversion agreements and power purchase agreements that NPC entered into with the IPPs.

Under a typical IPPA agreement, the energy offtake, which would have been delivered to NPC in the absence of an IPPA agreement, is instead delivered to the IPPA. The IPPA then looks to sell that committed power and production to customers and end users.
As a result of the privatization process under the EPIRA, there have been major changes to power plant ownership and management in the Philippines. In 2019, Non-NPC was the largest segment in the country's power generation sector, with a market share of 90.5% of total electricity production based on data published by the DOE. NPC's market share has significantly fallen from 4.6% in 2015 to 2.4% in 2019.

The table below depicts the gross electric power generation by ownership type in the past five years.

Gross Power Generation by Ownership Type (MWh)

Ownership Type	2015	2016	2017	2018	2019
NPC(1)	3,759,355	2,714,603	3,346,327	3,007,296	2,530,025
NPC-SPUG*(2)	405,097	440,496	410,511	431,512	449,640
NPC-IPP(3)	8,747,370	7,222,816	6,967,727	6,802,516	7,067,218
Non-NPC(4)	69,501,390	80,419,976	83,645,777	89,524,388	95,994,605
Total	**82,413,212**	**90,797,891**	**94,370,342**	**99,765,712**	**106,041,488**

Source: DOE Power Statistics 2019

Notes:

* *SPUG: Small Power Utilities Group*

(1) *NPC includes generation from power plants owned by NPC.*

(2) *NPC-SPUG includes generation from power plants owned by NPC and operating in off-grid areas.*

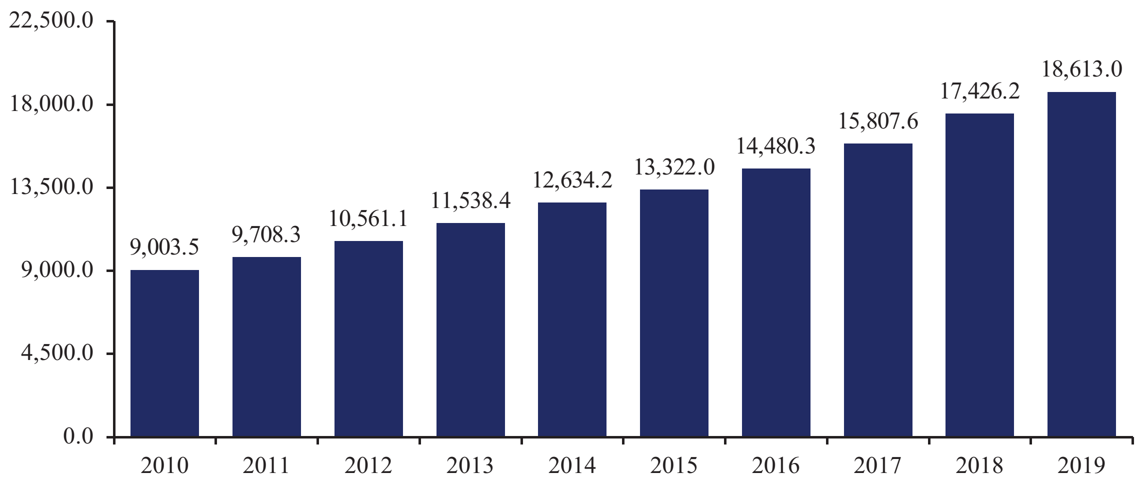
(3) *NPC-IPP includes generation of IPPs having contracts with NPC.*

(4) *Non-NPC includes generation of IPPs to customers (e.g. private distribution utilities and electric cooperatives).*

ECONOMIC GROWTH DRIVERS FOR DEMAND OF POWER IN THE PHILIPPINES

From 2010 to 2019, the nominal GDP in the Philippines grew from approximately ₱9,004 billion to ₱18,613 billion, according to the Economist Intelligence Unit, representing a compound annual growth rate ("**CAGR**") of 8.4%.

The Philippines' Nominal GDP (₱ billion)

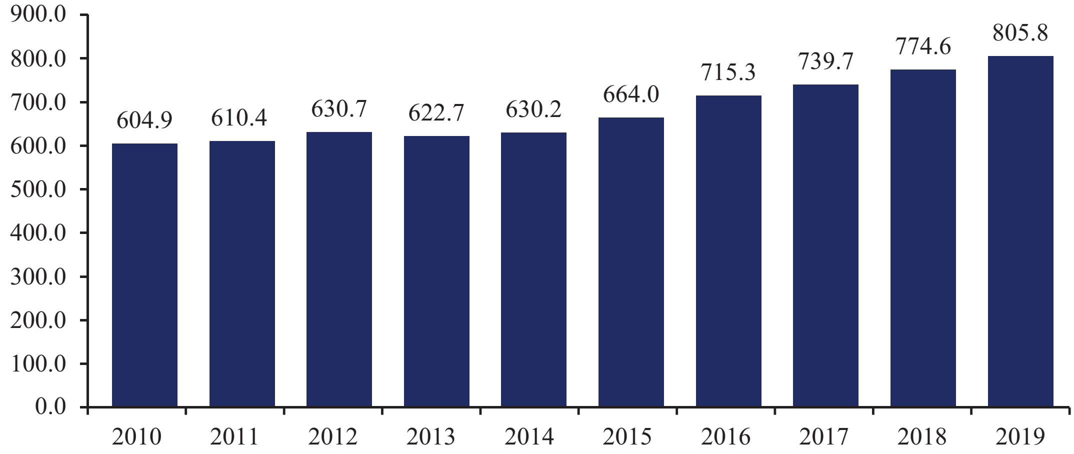


Source: Economist Intelligence Unit, the Philippine Statistics Authority

The electricity, gas and water subsector, also known as the utilities subsector, accounted for 3.3% of the GDP of the Philippines in 2015 (₱434 billion) and 3.2% of GDP in 2019 (₱588 billion).

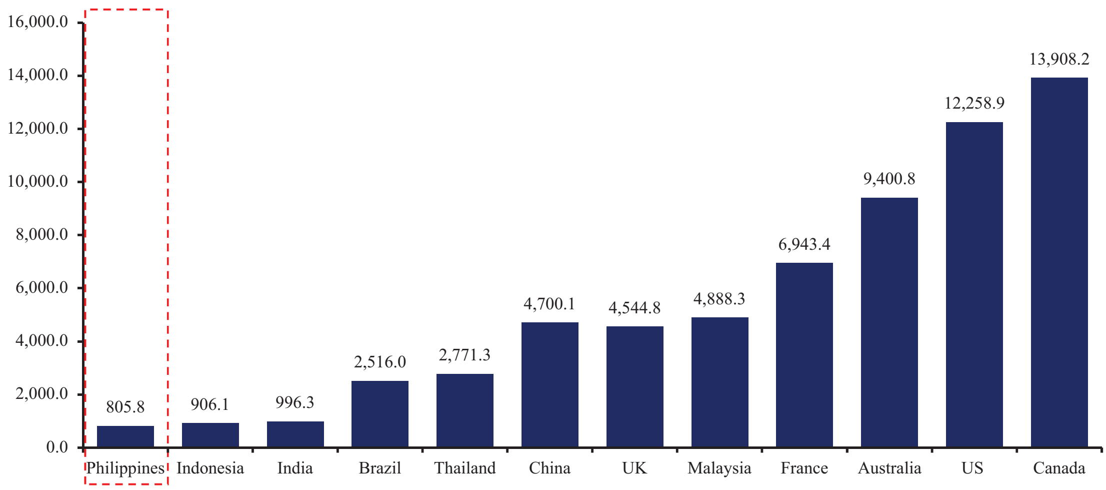
Per capita electricity consumption in the Philippines has also increased from 605 KWh in 2010 to 806 KWh in 2019, having increased at a CAGR of 3.2%. The per capita electricity consumption in the Philippines still remains significantly lower than other emerging economies such as Thailand and China and developed countries in Europe and North America. This indicates potential for growth in electricity demand as the Philippine economy continues to develop.

Annual Electricity Per Capita Consumption in the Philippines (KWh)



Source: DOE, Business Monitor

Electricity Per Capita Consumption Compared to Other Countries in 2019 (KWh)

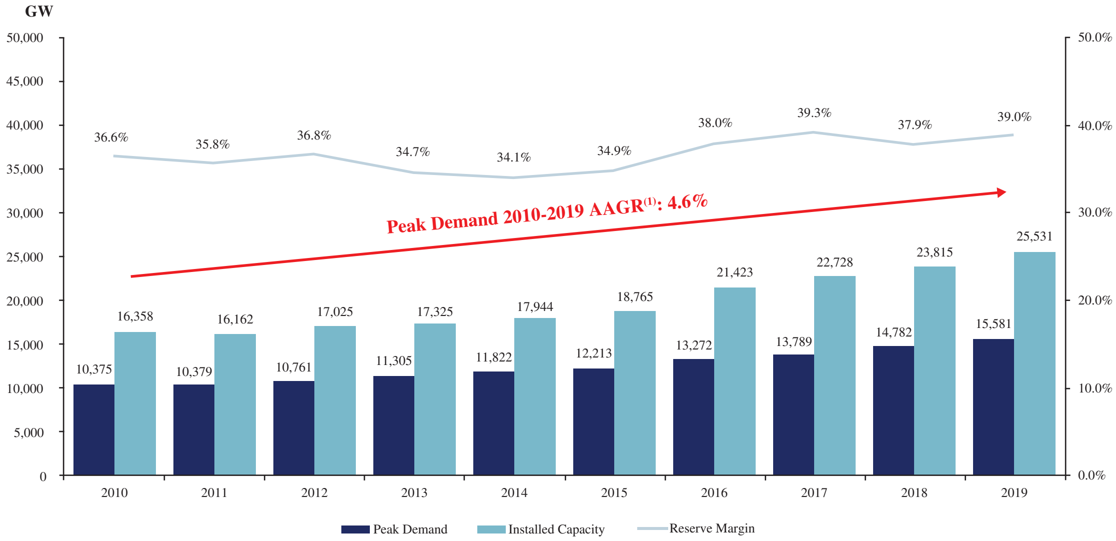


Source: DOE, Business Monitor

ELECTRICITY SUPPLY AND DEMAND

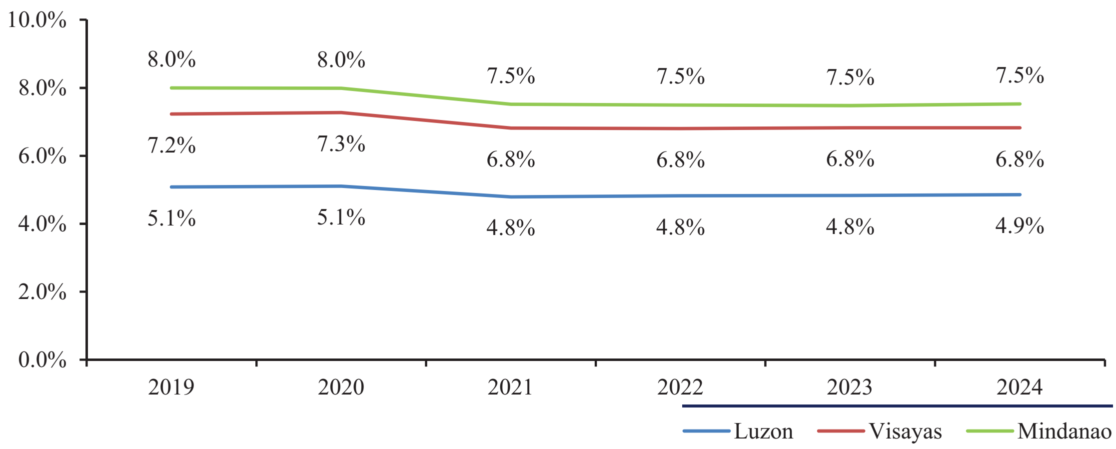
The Philippines' strong GDP growth has underpinned robust electricity demand growth. Peak demand has increased from 10.4 GW in 2010 to 15.6 GW in 2019 at an average annual growth rate ("**AAGR**") of 4.6%. On the other hand, installed capacity has grown at an AAGR of 5.1%. This has resulted in a widening reserve margin of 36.6% in 2010 to 39.0% in 2019.

Historical Peak Demand vs Supply



Source: DOE Power Statistics 2019
(1) Average annual growth rate

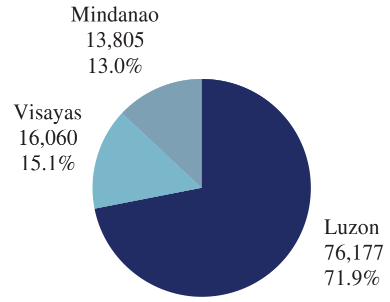
Projected Peak Demand Growth



Source: DOE

According to DOE Power Statistics 2019, as of December 31, 2019, the total installed capacity for the Philippine power industry amounted to 25,531 MW. In 2019, 106,041 GWh of electricity was generated. Electricity in the Philippines is distributed across three electricity grids comprising the Luzon, Visayas and Mindanao grids. The Luzon grid contributes ~72% of power generated in the Philippines.

Gross Power Generation by Grid in 2019 (GWh)

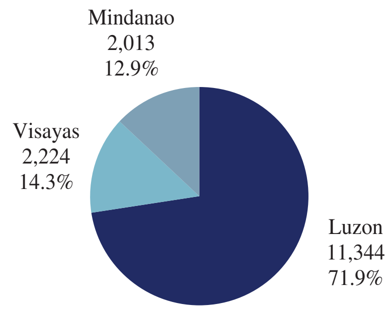


Total: 106,041 GWh

Source: DOE Power Statistics 2019

According to the DOE Power Statistics 2019, the Philippine electricity market had a total non-coincident peak demand of 15,581 MW in 2019. This demand is divided among the three major grids, with the Luzon grid having the largest demand at 11,344 MW in 2019. This was an increase of 4.3% compared to the 2018 level of 10,876 MW. In 2019, the Visayas and Mindanao grids also encountered increased peak demands of 2,224 MW (2018: 2,053 MW) and 2,013 MW (2018: 1,853 MW) respectively.

Peak Demand by Region in 2019 (MW)



Total: 15,581 MW

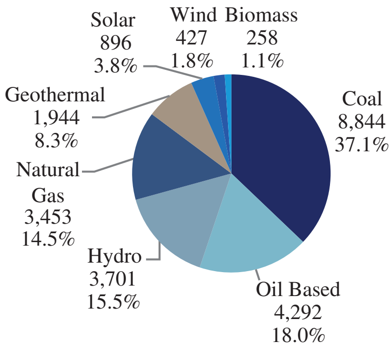
Source: DOE Power Statistics 2019

ENERGY SOURCES

The Philippines' main energy sources for power generation are coal, natural gas, geothermal, hydropower, fuel oil and diesel oil. Coal-fired plants accounted for the largest proportion of installed capacity and also remained the largest energy source in 2019, accounting for 40.8% of the country's total gross generation in 2019. Coal and natural gas-fired plants are the dominant producers of electricity in the Luzon grid, together accounting for 82.5% of the total generation in 2019. In the Visayas grid, gross generation from coal predominates, accounting for 49.6% of total generation in 2019. Coal and hydropower plants in the Mindanao grid, accounting for 89.1% of the total generation in 2019.

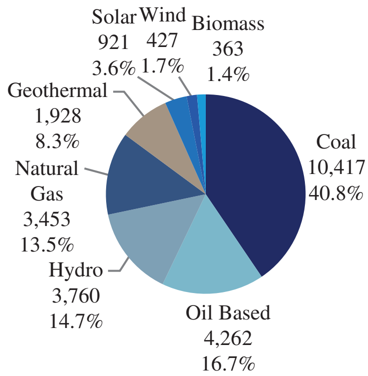
Installed Capacity by Plant Type in the Philippines (MW)

2018



Total: 23,815 MW

2019

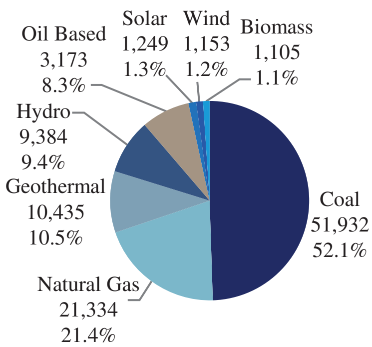


Total: 25,531 MW

Source: DOE Power Statistics 2019

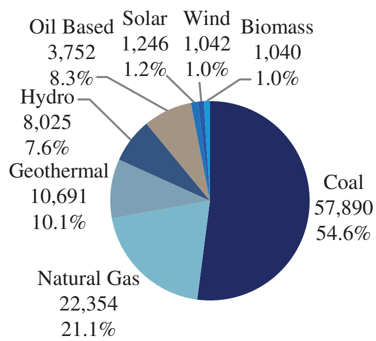
Gross Power Generation by Plant Type in the Philippines (GWh)

2018



Total: 99,765 GWh

2019

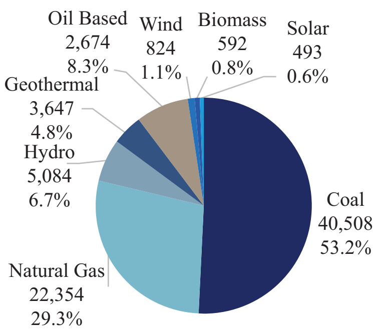


Total: 106,041 GWh

Source: DOE Power Statistics 2019

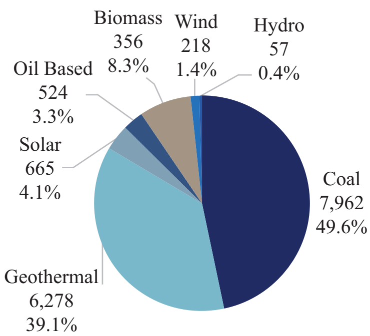
Gross Power Generation by Plant Type and Grid in 2019 (GWh)

Luzon



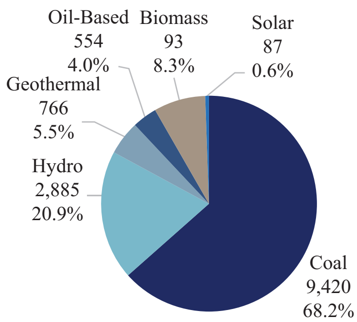
Total: 76,177 GWh

Visayas



Total: 16,060 GWh

Mindanao



Total: 13,805 GWh

Source: DOE Power Statistics 2019

The total electric power generation in 2019 was 106,041 GWh, 6.3% higher than the 99,765 GWh in 2018. Generation from fossil fuels (oil, coal and natural gas) increased by 9.9% to 83,997 GWh in 2019 from 76,439 GWh in 2018. Generation from renewable energy decreased by 5.5%, to 22,044 GWh in 2019 from 23,326 GWh in 2018.

Given its limited supply of natural resources, the Philippines largely relies on imports of coal and oil for generating electricity. The Government's goal, as set out in the National Energy Sufficiency and Conservation Program, is to meet supply targets while promoting energy self-sufficiency. Limiting the utilization of imported fuels will make the Philippines less vulnerable to increasing oil and coal prices and promoting the use of indigenous sources of energy such as locally mined coal, geothermal and hydro, will play an increasingly vital role if the Government expects to achieve its self-sufficiency targets.

ELECTRICITY SUPPLY AND DEMAND OUTLOOK

According to the DOE reports on private sector initiated power projects, there are approximately 4.7 GW of private sector initiated power projects that are committed and 6.6 GW of private sector initiated power projects that are indicative from 2020 to 2024 respectively. Approximately 4.1 GW of such committed and 5.0 GW of such indicative capacities are located in Luzon, and approximately 3.1 GW (committed) and 2.9 GW (indicative) are coal-fired projects.

Private Sector Initiated Power Projects (MW) — Breakdown by Region

	Committed					
	2020	2021	2022	2023	2024	2020-2024 Total
Luzon	1,421.0	2,033.0	0.0	0.0	600.0	**4,054.0**
Mindanao	175.0	0.0	0.0	0.0	0.0	**175.0**
Visayas	253.2	60.0	135.0	0.0	0.0	**448.2**
Total	**1,849.1**	**2,093.0**	**135.0**	**0.0**	**600.0**	**4,677.1**

	Indicative					
	2020	2021	2022	2023	2024	2020-2024 Total
Luzon	1,650.1	318.0	252.8	500.0	2,251.1	**4,972.0**
Mindanao	269.9	113.0	34.1	300.0	2.6	**719.6**
Visayas	467.6	63.2	17.5	5.0	310.0	**863.3**
Total	**2,387.6**	**494.2**	**304.4**	**805.0**	**2,563.7**	**6,554.9**

Private Sector Initiated Power Projects (MW) — Breakdown by Fuel Type

	Committed					
	2020	2021	2022	2023	2024	2020-2024 Total
Coal	1,418.0	968.0	135.0	0.0	600.0	**3,121.0**
Nat Gas	0.0	650.0	0.0	0.0	0.0	**650.0**
Oil-based	114.6	300.0	0.0	0.0	0.0	**414.6**
Geo	0.0	0.0	0.0	0.0	0.0	**0.0**
Hydro	0.0	0.0	0.0	0.0	0.0	**0.0**
Solar	125.0	115.0	0.0	0.0	0.0	**240.0**
Wind	0.0	0.0	0.0	0.0	0.0	**0.0**
Biomass	191.6	60.0	0.0	0.0	0.0	**251.6**
BESS	0.0	0.0	0.0	0.0	0.0	**0.0**
Total	**1,849.1**	**2,093.0**	**135.0**	**0.0**	**600.0**	**4,677.1**

	Indicative					
	2020	2021	2022	2023	2024	2020-2024 Total
Coal	0.0	0.0	0.0	650.0	2,200.0	**2,850.0**
Nat Gas	0.0	0.0	0.0	0.0	0.0	**0.0**
Oil-based	644.1	44.2	0.0	0.0	0.0	**688.3**
Geo	0.0	35.0	131.0	5.0	10.0	**181.0**
Hydro	42.9	23.0	13.6	150.0	353.7	**583.2**
Solar	668.0	360.0	18.8	0.0	0.0	**1,046.7**
Wind	878.0	14.0	100.0	0.0	0.0	**992.0**
Biomass	154.7	18.0	41.0	0.0	0.0	**213.7**
BESS	0.0	0.0	0.0	0.0	0.0	**0.0**
Total	**2,387.6**	**494.2**	**304.4**	**805.0**	**2,563.7**	**6,554.9**

Source: DOE as of December 31, 2019

PHILIPPINE ENERGY PLAN — STRATEGIC DIRECTIONS

In its Philippine Energy Plan 2017-2040, the DOE identified the following strategic directions for the Philippine power industry:

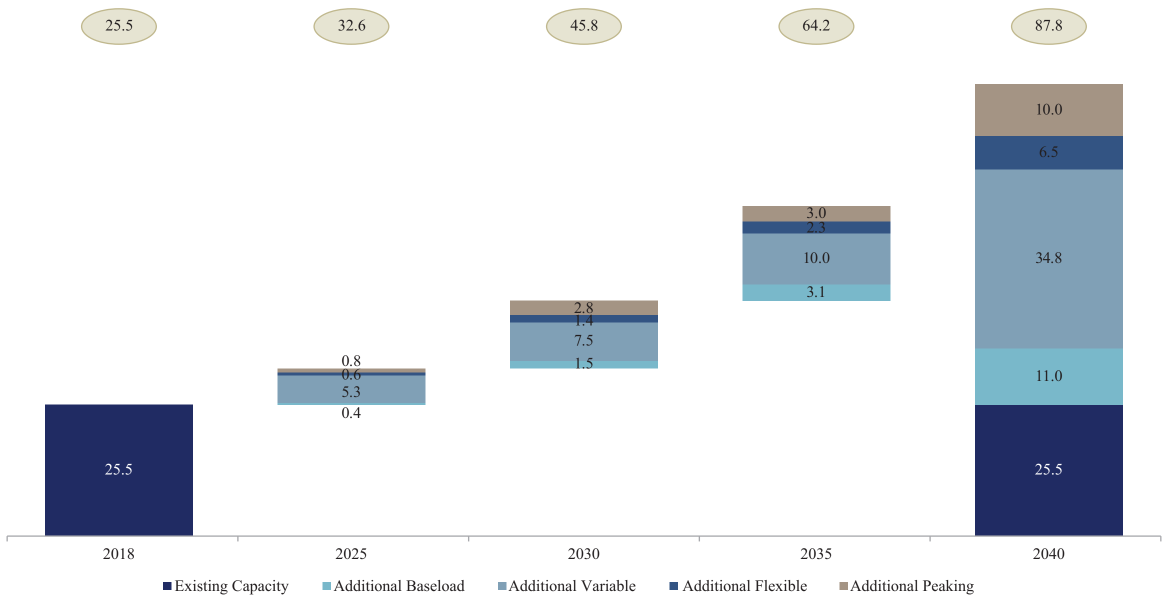
- Ensure energy security
- Expand energy access to ensure affordable, reliable, and sustainable and modern energy for all
- Promote a low carbon future
- Strengthen collaboration among all government agencies involved in energy
- Implement, monitor and integrate sectoral and technological roadmaps and action plans
- Advocate the passage of the Department's legislative agenda
- Strengthen consumer welfare and protection
- Foster stronger international relations and partnerships

The NGCP also has an ongoing project to connect the Mindanao Grid to the Visayas Grid, which will effectively connect the three main power grids in the country. This project is expected to be completed by 2020 according to information published by the NGCP.

SOURCES OF FUTURE POWER SUPPLY

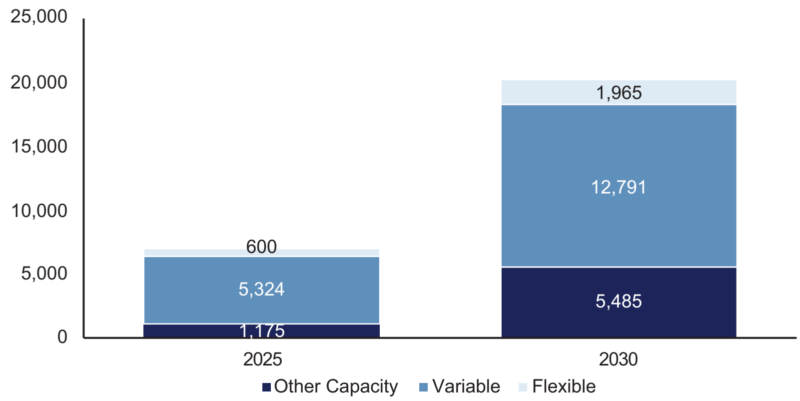
In the latest DOE Power Supply and Demand Outlook 2018-2040, the DOE projects capacity expansion requirements of over 62.3 GW in the long-term, with total installed capacity slated to reach 87.8 GW by 2040. The forecast of the DOE is fuel-neutral, but is broken down in terms of type of operations. In this outlook, 11 GW of additional baseload capacities is forecasted, and a significant portion or 56% of new capacity amounting to 34.8 GW will come from variable capacities, referring to renewable energy sources such as solar and wind that provide intermittent power.

Philippine Capacity Expansion Plan for 2018-2040 (GW)



Source: DOE Power Demand and Supply Outlook 2018-2040

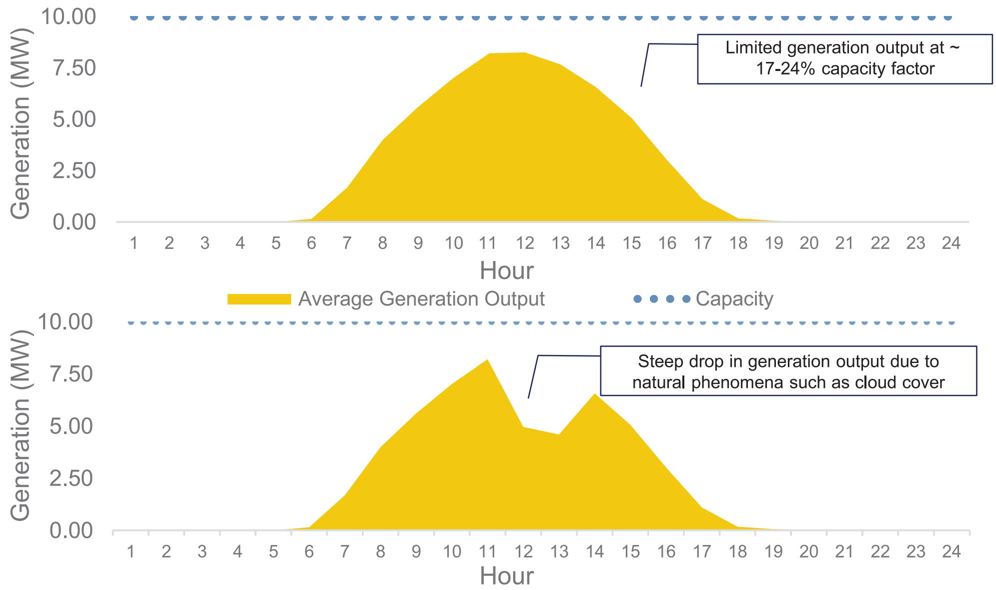
Philippine Capacity Expansion — Variable, Flexible and Other Capacity 2025 and 2030 (MW)



Source: DOE Power Outlook 2018-2040.

The DOE outlook forecasts the entry of significant variable capacities. Variable capacities are those whose generation are capable of steep or sudden drops or increases in generation output. Majority of such capacities are from renewable energies such as solar and wind. These capacities are intermittent, with generation output that is difficult to forecast and is susceptible to sudden increases and decreases due to natural phenomenon.

The graphs below illustrate an average profile of a solar plant in the Philippines:



Source: 12-months average of hourly real time dispatch of Visayas solar plants based on available data from the WESM.

These can be compensated by capacities such as BESS, which are capable of responding to operational signals and instantaneously ramp up or down its power generation. Such flexible capacities can cost-effectively assist in balancing intra-hour changing loads while compensating for sudden drops in output of variable renewable energies.

Flexible capacities are necessary to maintain the stability of the grid. Given this, the forecasted entry of almost 13GW of variable capacities by 2030 will require support of about 2 GW flexible capacities translating to about 10% to 20% flexible capacities for every variable capacity.

Of the 5,324 MW or approximately 5 GW variable capacity expected by 2025 cited in the 2018 DOE Power Outlook, the Company believes that up to 2 GW and up to 3 GW will be available by 2020 and 2021, respectively. Taking this into consideration, the following major supply developments and other committed private sector initiated power projects, the Company has made certain adjustments and forecasts to capacity expansion and demand growth in the Philippines.

MERALCO AND DISTRIBUTION MARKET

The distribution market represents a significant portion of the Philippine electricity market. These typically provide electricity to end-consumers in a franchise area, which includes industrial end-users and small end-consumers, or the captive market. Under the EPIRA, the tariffs charged by distribution utilities for the supply of electricity to the captive market shall be subject to regulation by the ERC based on the principle of full recovery of prudent and reasonable economic costs incurred. In practice, such costs include reasonable margins.

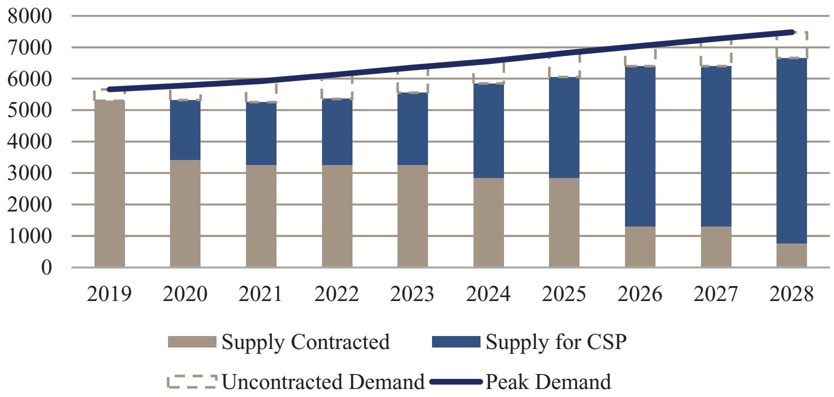
Based on the DOE's 2018-2027 Distribution Development Plan, MERALCO is the largest distribution utility in the Philippines.

MERALCO PSA Profile vs. Projected Demand

In its 2019-2028 power supply procurement plan ("**Meralco PSPP**"), Meralco forecasts sustained growth in electricity demand of its captive market sales, driven by moderate economic growth and additions to its customer base, albeit tempered by customer response to public policies, particularly on the promotion of renewable energy, energy efficiency, and retail market participation. This translates to CAGR in Meralco energy purchases of 3.3%, resulting from increases in its coincidental peak demand forecasted to be 2.76% p.a. until 2028.

Meralco foresees the following PSA requirements and projected demand:

Meralco Supply & Demand Forecast



Source: Meralco Power Supply Procurement Plan 2019-2028

In the same document, Meralco lists 7,700 MW of capacities to be bid out for its electricity requirements over the next eight years. This is composed of 2,700 MW in baseload capacities, 1,200 MW in mid-merit capacities, and 3,800 MW in peaking capacities.

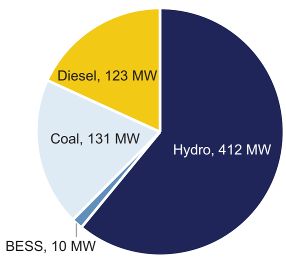
MERALCO, in early 2020, secured the approval of the Department of Energy for the CSP of 1,800 MW greenfield baseload capacity for its requirements in 2024/2025, which include 1,200 MW capacity from the failed CSP in 2019 and an additional 600MW from the target 1,500 MW baseload capacity supposedly scheduled for bidding in 2020.

The Company anticipates the preparations for the CSP to commence and the formal bidding to occur within the last quarter of 2020 through the first quarter of 2021. The Company intends to use the capacity of its greenfield power plants to bid for the upcoming 1,800 MW Meralco bid and other capacities for CSP.

ANCILLARY SERVICES MARKET

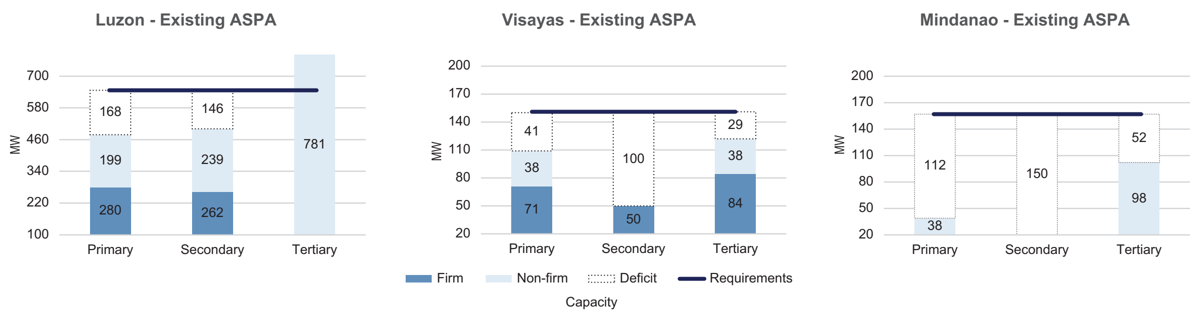
Ancillary Services Mix

The chart below sets out the firm primary and secondary ancillary services mix per fuel based on various ancillary services procurement agreement ("**ASPA**") applications with the ERC as of September 30, 2019.



Note: Information derived by the Company based on ASPA applications publicly available on the ERC website.

The charts below set out the primary, secondary and tertiary ancillary services mix per grid based on various ASPA applications with the ERC as of September 30, 2019.



Note: Information derived by the Company based on ASPA applications publicly available on the ERC website.

The Company estimates that the total uncontracted ASPA requirements and non-firm ASPA contracts amounts to 2,200 MW, of which 1,300 MW are for frequency regulating reserves.

Ancillary Services and the Grid

Under the current market structure and expansion plan, two issues arise. First, the increase in the share of renewable capacities in the Philippine grid increases the susceptibility of the grid to reliability, stability, and power quality issues such as under-frequency load shedding and non-compliance to the Philippine Grid Code, which could include frequency violations. For instance, the Philippine grid operates under a 60.0Hz system, thereby requiring that frequency be maintained within a 59.7-60.3Hz band. The Frequency Response Obligation (FRO) requirement necessitates sufficient, fast-response reserves to arrest frequency fluctuations in the order of milliseconds to seconds timeframe. The increase in variable sources of energy in the grid increases the probability of frequency going above or below this frequency band, which may result to forced power outages for end-users. Compounding this first issue is that the quality of the national grid's power supply is susceptible to supply outages — currently, a loss of 600MW in the Luzon grid leads to a frequency drop of 1.0Hz in about 2.7 seconds. Overall, unless sufficient fast-response reserves are available, significant long-term investment of an additional 6.5 GW in flexible capacities to balance the grid's capacity mix, such as in BESS, are needed.

Because of this emerging issue, the DOE has been supportive of alternative forms of power source for the Philippines. Based on the DOE data, of the 66 power projects that were cleared by the DOE for the conduct of a grid impact study in June and July 2019, 60 are BESS, which can store energy via the use of a battery technology. Of the 60 BESS projects, 39 are from SMC Global Power through its subsidiaries, with each BESS project having a capacity of at least 20 MWh each. Global Business Power Corp., meanwhile, proposed 14 BESS projects that vary from 7.5 MWh to 20 MWh each. Six BESS projects are proposed by Horus Solar Energy Corp. and the remaining BESS project is from Juxtapose Ergo Consultus Inc.

Battery Energy Storage Systems Technology

BESS is a type of energy storage system, which utilizes various battery technologies to provide frequency regulation to improve reliability and stability of the transmission grid, capture electricity produced by renewable and non-renewable sources to store for discharge at a later time, among other applications. The World Bank estimates global battery storage demand will reach 2,800 GWh by 2040.

As noted in the Asian Development Bank Handbook on Battery Energy Storage System 2018 ("**ADB BESS Handbook**"), the BESS market has been driven by a global improvement in battery prices, including a 77% price decline from 2010 to 2016; additionally, these prices are expected to decline further by 50-60% until 2030.

BESS is capable of more dynamic regulation than traditional/analog generators i.e. steam-based such as coal or natural gas. It offers instantaneous regulation support with almost zero lag from desired response.

BESS is believed to provide the following benefits:

Economic	Environment	Technical
• High internal rate of return	• Compensates for intermittency of renewables such as solar and wind	• Fast response time (less than 1 second to full dispatch)
• Short payback period	• Renewable energy integration	• Over 85% roundtrip efficiency
• Attractive EBITDA margins	• Zero direct emissions	• Over 97% availability
• Medium investment costs	• Improve efficiency of non-renewable	• Modular design
• Low O&M costs	• Displace less efficient generating units i.e. diesel plants	• Medium construction period
• No start-up costs		• Useful life of 10-15 years

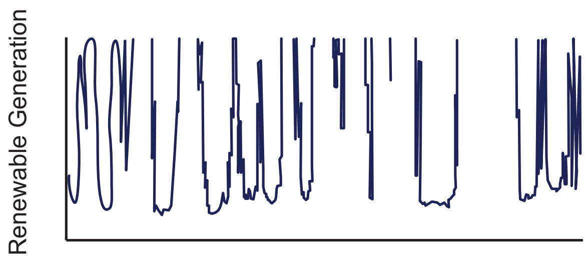
Source: ADB BESS Handbook, Company information

Integration of BESS with other Renewables

BESS technology is attractive to use together with other sources of technology, particularly with renewables, which is expected to become a larger component of the national grid.

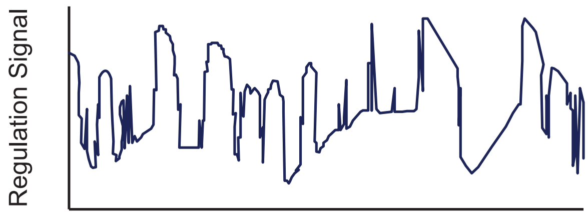
The ADB BESS Handbook recognizes that BESS can provide flexibility, which increases the volume of renewables that can be safely connected to the grid, through smoothing of renewable generation. Three scenarios are illustrated below — the quality of power delivered by an intermittent source of electricity, such as solar energy is improved when used in conjunction with BESS.

Scenario 1: Solar energy standalone



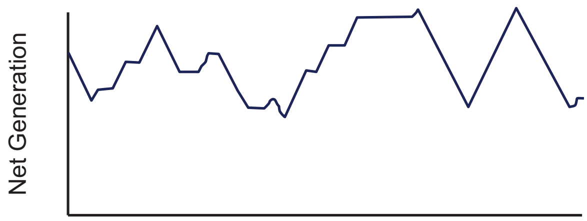
- Intermittent. Quick jumps between 30% to 100% of capacity

Scenario 2: BESS standalone



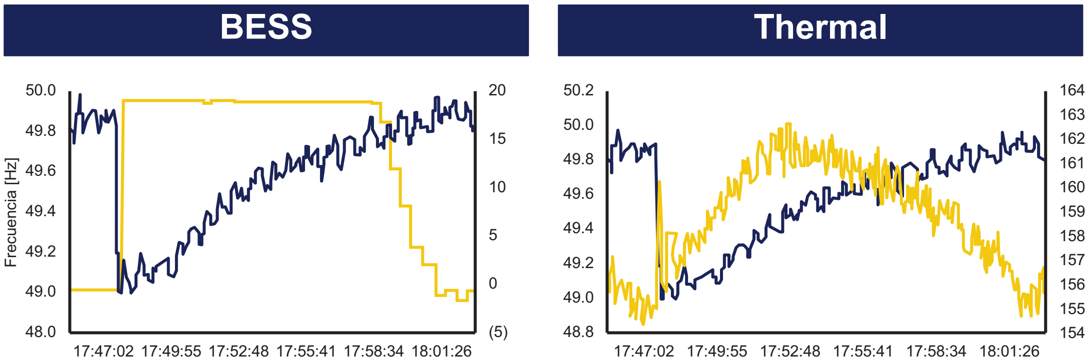
- Charge and discharge are mirror images of each other

Scenario 3: Solar energy and BESS combined

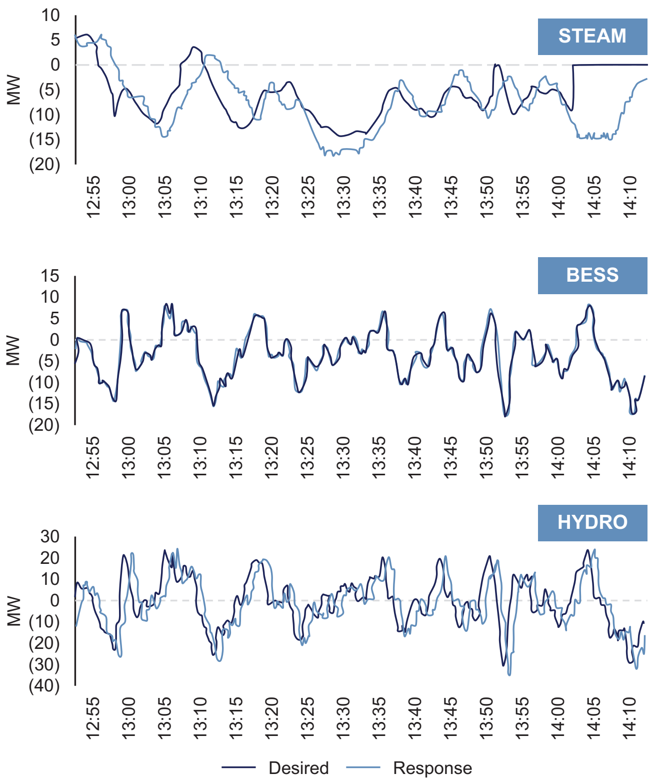


- Slow and modest swings
- Output is more manageable by grid operator
- Option to attain baseload generation with sufficient BESS sizing

According to the ADB BESS Handbook, the response time of BESS is faster than that of a conventional power plant (i.e., subseconds versus three to five seconds), which makes it very useful for grid frequency balancing. Such difference in response time, comparing BESS and thermal conventional power, is illustrated below.



The response time of BESS compared to steam and hydro power is also illustrated below. Notably, the response of BESS is instantaneous and provides more precise regulation support with almost zero lag from the desired response, as compared to the others.



Global Developments in BESS

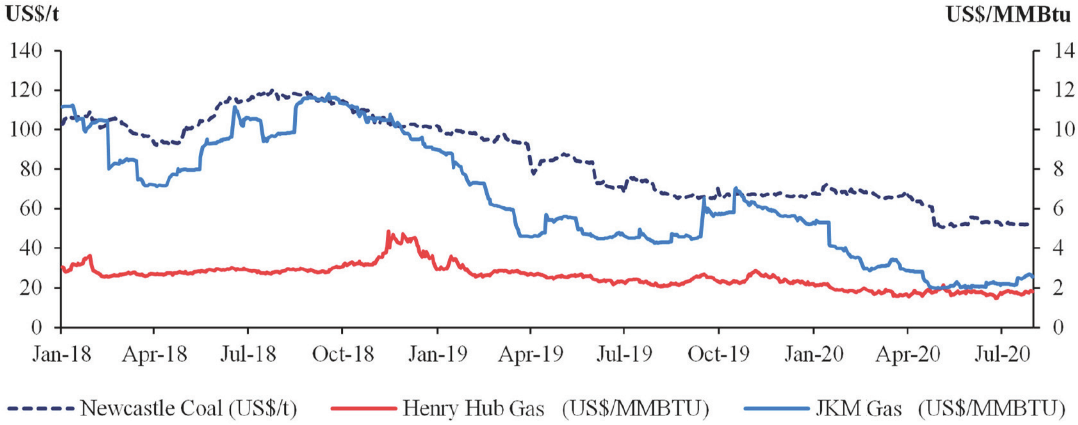
Developments in BESS coincide with various global initiatives, particularly with regard to BESS technologies. Notable among these is the increasing support by the World Bank for BESS projects. To enable the rapid uptake of variable renewable energies, the World Bank is convening an Energy Storage Partnership ("**ESP**"). The stated goals of the ESP are international cooperation on technology (research and development, demonstration, and applications), system integration and planning tools, and policy making, among others. This project recognizes that among the energy storage options available, BESS is becoming a feasible solution for modern grids, primarily due to its fast response, easy deployment and cost reduction trends. Per Asian Development Bank estimates in its Handbook on Battery Energy Storage System dated December 2018, prices of lithium batteries have dropped by 77% from 2010 to 2016. Prices are expected to decline further by 50-60% until 2030. Special focus is given to BESS applications for developing countries, particularly in the adaptation of BESS for their capacity requirements integrating renewable sources while maintaining grid stability.

The ESP is complemented by the World Bank's "Accelerating Battery Storage for Development" program, which will finance and de-risk BESS-related investments, such as stand-alone batteries that can help stabilize and strengthen grids, and off-grid applications. The World Bank Group is investing $1 billion in funding from its own coffers towards this new program, and will fundraise another $1 billion in concessional climate funds through channels such as the Climate Investment Funds' Clean Technology Fund. The program is expected to raise an additional $3 billion from public and private funds and investors. Through these and other projects, the World Bank estimates global battery storage demand will reach 2,800 GWh by 2040.

GLOBAL FUEL PRICE UPDATE

The COVID-19-induced lockdowns have exacerbated the already prolonged decline in prices in the coal and gas markets. International gas prices reached record low levels in 2019 driven by the commissioning of new export infrastructure and limited demand response from Asian markets. Relatively cheap gas, weaker power demand and the continued growth in renewables have also been the key drivers applying pressure on coal prices.

Historical LNG and Coal Spot Prices



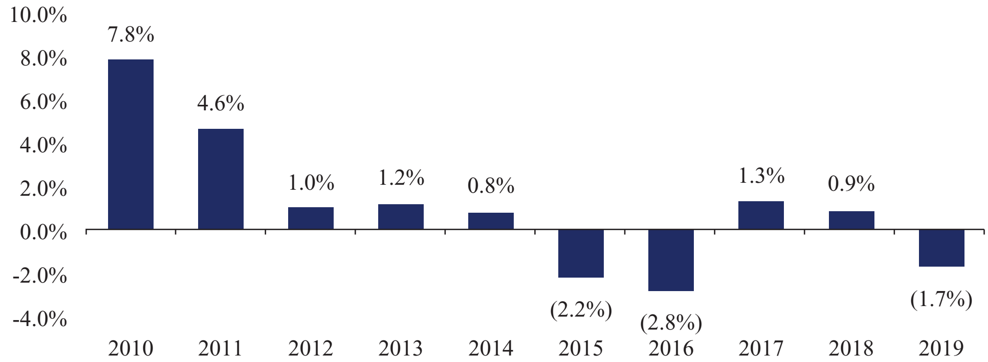
Source: Bloomberg

The Henry Hub natural gas price averaged ~U.S.$1.6/MMBtu in June 2020, the lowest inflation-adjusted price going back to at least 1989. JKM gas prices have also fallen considerably and spreads with Henry Hub gas have tightened. Demand for coal has softened through the pandemic and continues to be challenged in developed markets in the long-term. Newcastle 6,000kcal remained at around the 4-year low of ~U.S.$50/t through June 2020.

Coal Prices Remain Low

Based on Bloomberg data, thermal coal prices have fallen (~23% YTD as of July 2020) and the price recovery could be slow. Coal production from Asia continued to register robust growth with Indonesia and Australia increasing output by ~12% and ~4% respectively in 2019.

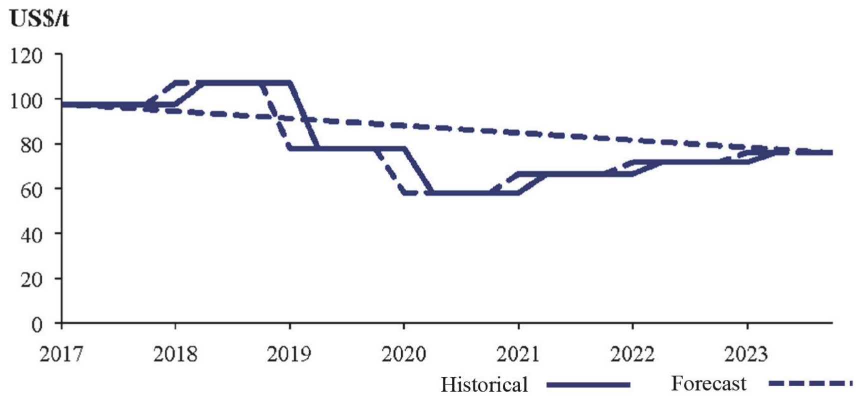
Global Annual Change in Coal Demand, 2010 to 2019



Source: International Energy Agency

Demand side fundamentals continue to be challenged with coal demand declining -1.7% in 2019. This is the third time coal demand has fallen over the past five years. Competition from natural gas and renewables is coinciding with carbon pricing and emission policies, especially in developed nations.

Newcastle Coal Historical Average and Forecast Prices (U.S.$/t)

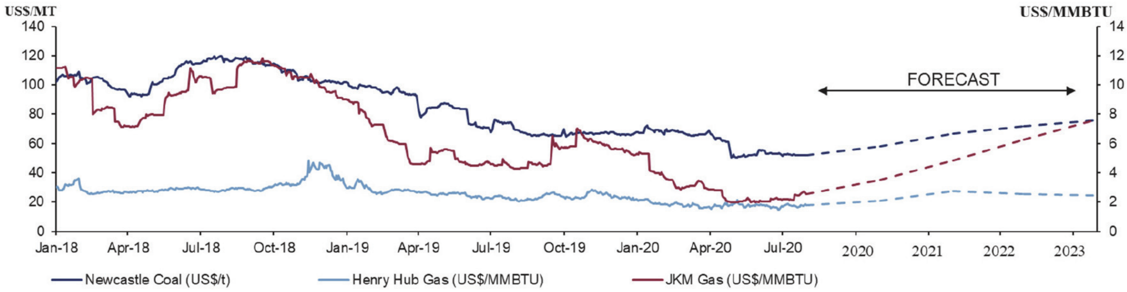


Source: Bloomberg

Looking ahead, near-term prices of coal may see a modest boost following the lifting of global lockdown restrictions in 2020 due to COVID-19. However, thermal coal prices may remain capped in the foreseeable future as the demand growth from Asia is offset by the continued reduction of coal use in US and Europe. According to the International Energy Agency ("**IEA**"), coal demand is expected to remain flat through 2024, and supported mainly by a resilient Chinese market.

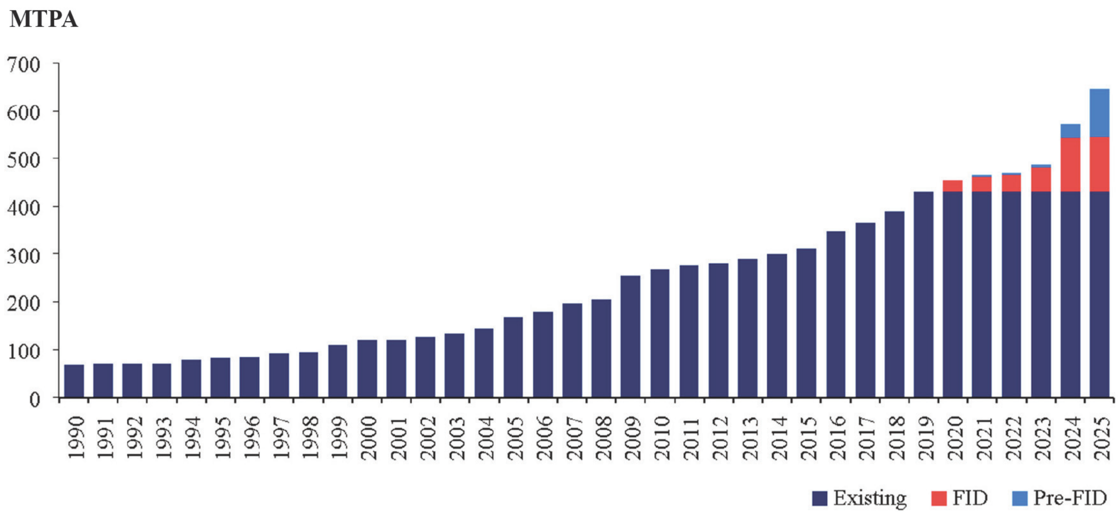
Gas Prices Turn Highly Competitive

According to the International Gas Union ("**IGU**"), gas prices have fallen to historic lows driven by increasing natural gas production, the commissioning of new export infrastructure and limited demand response from Asian markets. A wave of new liquefaction capacity came online in 2019 which brought global capacity to ~431 million tons per annum ("**MTPA**"). Forecasted prices for natural gas and coal show that the competitiveness of fuel pricing is likely to continue.



Source: Bloomberg, International Gas Union, Platts, Reuters

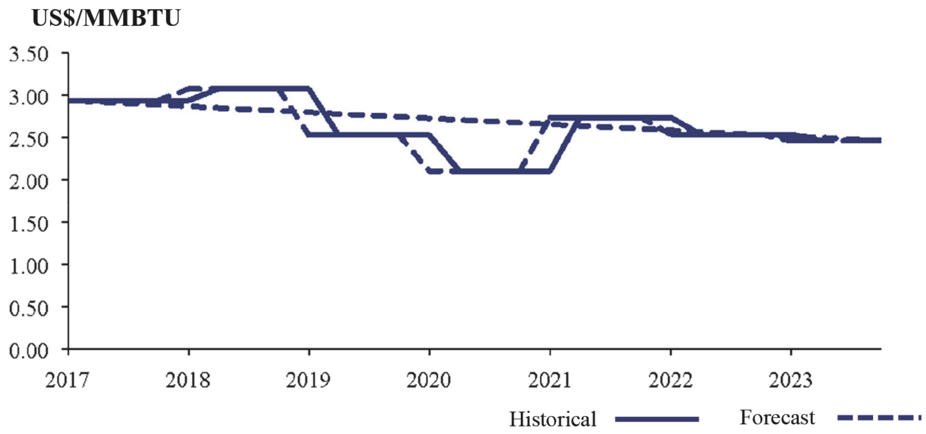
Global Liquefaction Capacity Development, 1990 to 2025



Source: International Gas Union

Additional production surplus is set to come online with ~71 MTPA of new capacity approved in 2019 according to IGU. Demand for LNG is not responding in tandem to the large increase in LNG supply resulting in the current lower price environment. Gas demand grew just ~2% compared to a ~11% growth in liquefaction capacity in 2019 according to IGU.

Henry Hub Gas Historical Average and Forecast Prices (U.S.$/MMBTU)



Source: Bloomberg

Gas prices are highly competitive at current levels and may be expected to bottom out. Historically, low commodity prices have brought down new project FID activity and this could bring the market closer to balance by the middle of the decade. However, the commencement of additional capacity in 2019 could see LNG supply growth potentially outpacing global demand for another two years. This will mean continued low prices in the medium-term before a period of price recovery.

GAS-FIRED POWER PLANT TECHNOLOGY

The forecasted decrease in gas prices in the near- to medium-term could make the development of gas-fired power plants an attractive proposition. Natural gas power plants have several advantages over other fuel types:

- Low cost and high availability of natural gas
- Relatively inexpensive and shorter construction times
- Higher thermodynamic efficiencies compared to other power plants
- Burning of natural gas produces fewer pollutants than coal and oil

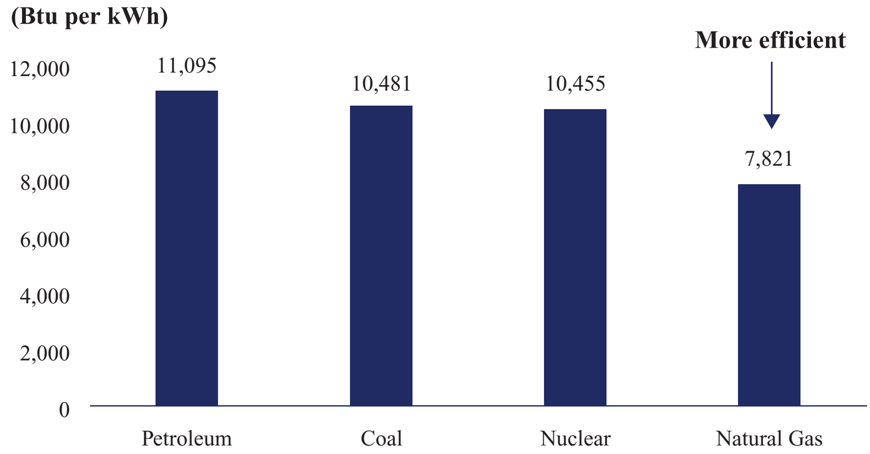
Gas power plants can be classified into two types of electricity generating technologies:

Simple-cycle gas power plant: Simple-cycle gas power plants have greater flexibility and can be started up quickly to meet operational needs. Therefore, they can respond to fluctuating demands for electricity and are commonly applied to peaking power generation. However, they are less efficient compared to combined-cycle and have higher specific emissions.

Combined-cycle gas power plant: Combined-cycle gas power plants use both a gas and a steam turbine together to produce up to 50% more electricity from the same fuel than traditional simple cycle plants. The waste heat from the gas turbine is routed to the nearby steam turbine, which generates extra power. They support mid-merit to base load power generation but have higher capital expenditure requirements and a longer construction cycle.

According to the IEA, the price of LNG today has made gas-fired power a cost-efficient alternative to coal and commercially viable in the process of base load generation. Generally, combined cycle plants also have the flexibility to operate reliably as mid-merit or peaking generation, and is capable of quickly ramping up or down in response to fluctuations in demand. The increasing use of gas-power, according to the IEA, is expected to continue and has become a viable fuel for electricity generation.

Average Annual Heat Rates for Generators by Fuel Type



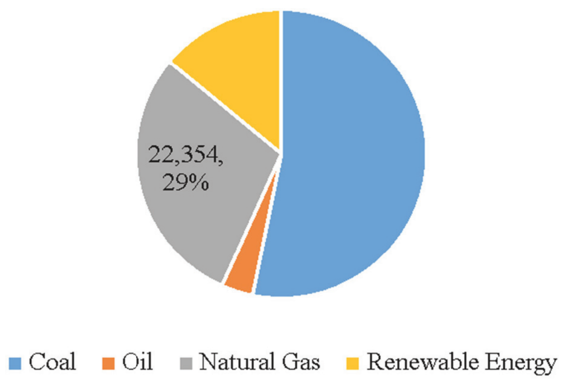
Source: Energy Information Administration

According to the International Finance Corporation ("**IFC**"), combined-cycle gas power plants are significantly more thermal efficient (~50% to 60%) compared to other types of generators. This is in contrast to single-cycle gas power plants (~35 to 40%), subcritical coal-fired power plants (less than 38%) and supercritical coal-fired power plants (up to 42%). A higher efficiency power plant increases the amount of energy that can be extracted per unit of resource and can have a positive effect on emissions. Based on data from the U.S. Energy Information Administration, combined cycle power plants have less than half the carbon dioxide emissions of coal technologies, with a carbon dioxide emissions intensity of 0.92 lb/KWh compared to 2.21 lb/KWh for coal-fired power plants.

DOWNSTREAM NATURAL GAS INDUSTRY IN THE PHILIPPINES

Natural gas comprises a significant portion of the power generation requirements in the Philippines, particularly for the Luzon grid. In 2019, 29% or about 22,354 GWh of the electricity generated in the Luzon grid came from power plants utilizing natural gas. This fuel source was second only to coal.

2019 Luzon Grid Generation (GWh, %)



Source: DOE 2019 Power Statistics

This generation accrues primarily to the five natural gas-fired power plants, all located in Batangas province in the Luzon Grid ("**Philippine Natural Gas Plants**"). The Philippine Natural Gas Plants have a total capacity of 3,290 MW, of which the largest installed capacities are attributable to the Ilijan Power Plant, the Sta. Rita Power Plant, and the San Lorenzo Power Plant.

Power Plant	Gross Installed Capacity (MW)
Ilijan	1,200
Sta. Rita	1,043
San Lorenzo	527
San Gabriel	420
Avion	100
Total	3,290

Source: ERC Resolution No. 02, Series of 2020

According to a presentation by the DOE in September 2020 entitled "The Philippine Downstream Natural Gas Industry", Malampaya supplies the Philippine Natural Gas Plants through several gas supply and purchase agreements. Malampaya had initial gas reserves of 2.7 Tcf, and has average production levels of 450 million standard cubic feet per day ("mmscfd"). The DOE also notes that the concession of Malampaya expires in 2024, with a drop in supply starting as early as 2022. It further notes that Malampaya does not have enough gas for further expansion, and that there is no existing indigenous replacement for the natural gas supply it provides. Such uncertainty on continuing supply from Malampaya, as well as lack of progress on other potential gas fields, has constrained the ability to further develop the downstream LNG market.

Further, there are currently no existing or operational LNG import facilities. Such LNG import facilities would have allowed the importation of LNG from the global market, as the Philippines is located in the path of existing Asian LNG trade routes.

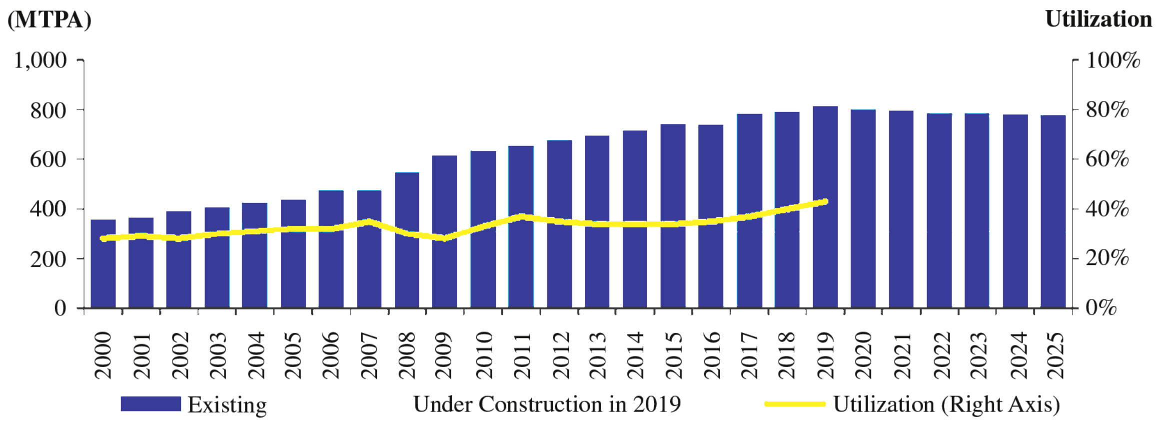
According to the DOE, it has issued notices to proceed with LNG terminal projects to FGEN LNG Corporation, Excelerate Energy L.P., Batangas Clean Energy, Inc., and Energy World Gas Operations Philippines, Inc. It should be noted that these proposed LNG terminal projects have proponents with power plants who are not yet operational (as is the case with Energy World Gas Operations Philippines, and Batangas Clean Energy, Inc.), or have power plants which have existing gas sales and purchase agreements valid until 2024 (FGEN LNG Corporation for the Philippine Natural Gas Plants except the Ilijan Power Plant). AGP International Holdings Pte. Ltd. ("**AG&P**"), through its subsidiary Atlantic Gulf and Pacific Company of Manila Inc. ("**AG&P Manila**"), has initiated the application process for a notice to proceed from the DOE and has submitted initial documents for their review.

LNG REGASIFICATION AND STORAGE TERMINALS

Regasification capacity: Global LNG regasification capacity reached 821 MTPA across 37 markets as of February 2020, according to the IGU. Six new terminals were added globally while three existing terminals underwent expansions since 2019. The majority of additions in global receiving terminal capacity in 2019 came from Asian markets with new built terminals in these areas primarily shore-based. The use of floating regasification terminals is increasing as well, with the start-up of three new FSRUs in Bangladesh, Brazil, and Jamaica in 2019.

Historically, the growth in regasification capacity was driven by FSRU solutions. According to "The Outlook for Floating Storage and Regasification Units" report (dated July 2017) by the University of Oxford, close to 50 FSRUs could be in operation by 2025. This growth is partially driven by cheaper costs, i.e,. an FSRU newbuild would cost ~U.S.$300-450M compared to an onshore terminal at U.S.$750-1,000M. The growth is also supported by the trend toward modular regasification units, with companies such as AG&P and Wartsila offering such solutions. These more diverse and flexible solutions allow for quicker construction at lower costs.

Global Receiving Terminal Capacity and Utilization



Source: Rystad Energy

Regasification utilization: Regasification utilization levels across global LNG markets reached 43% in 2019, a 3% jump from 2018, according to IGU. Regasification terminal capacity generally exceeds liquefaction capacity in order to meet peak seasonal demand and secure supply. Growing natural gas demand has supported the steady growth seen in the average global regasification utilization.

Comparison of Onshore Terminals and FSRUs

The majority of the existing regasification terminals globally are land-based, with the ratio of existing onshore to floating regasification terminals at around 5:1 as of February 2020. However, the proportion of floating regasification terminals has grown steadily in recent years, as an increasing number of new FSRU-based projects came online.

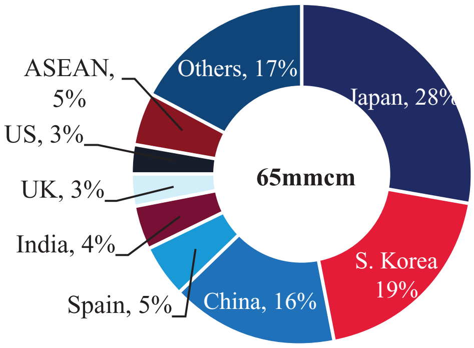
Onshore Terminals	FSRUs
Provides a more permanent solution	Allows for quicker fuel switching or complementing domestic production
Offers longer-term supply security	Greater flexibility in land and port requirements
Greater gas storage capacity	Requires lower capital expenditures or obtained via medium- to long-term charter
Requires lower operating expenditures	Depending on location, fewer regulations

Source: International Gas Union

Onshore terminals typically support the installation of larger storage tanks and regasification capacity relative to a floating terminal. Onshore projects are also less exposed to location and geological dependent risk factors and allow for on-site storage and regasification capacity expansions. In contrast, FSRUs' trades stability in favor of shorter construction times and ease of relocation compared to an onshore terminal. This allows for FSRUs to be deployed on a charter-basis. FSRUs are more flexible and less capex-intensive than land-based terminals.

Hybrid terminals combines the best of both land-based and floating systems. LNG can be stored through a combination of onshore facilities and floating storage units ("**FSU**"). The regasification system can also be installed either on a jetty, on a separate floating storage regasification barge (FSRB) or on a land-based terminal. Hybrid terminals can provide the longer-term stability of an onshore terminal while maintaining the flexibility to meet operational requirements.

LNG Storage Tank Capacity by Market



Source: Rystad Energy

LNG storage capacity: Storage capacity at global receiving terminals has climbed steadily with the construction of new LNG terminals and the expansion of existing facilities. Global storage capacity neared 65 million cubic meters (mmcm) through the addition of seven new receiving terminals and three expansion projects in 2019. FSU usage is also increasing. This is driven by quick turnaround time (< 12 months for FSU compared to 36 to 40 months for onshore tank) and lower cost (an FSU costs ~$100-150m versus $140M for onshore tank).

Receiving terminals with higher regasification capacity are often equipped with large storage capacity. Asian and Asia Pacific markets have the highest share of global storage capacity due to seasonal demand and the lack of adequate connectivity to gas infrastructure in certain markets.

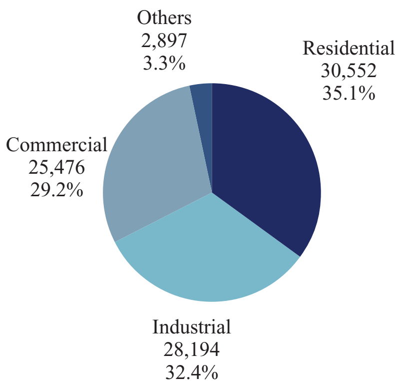
Outlook in LNG Regasification and Storage

As of February 2020, ~120 MTPA of new regasification capacity was under construction globally, including 14 new onshore terminals, 12 FSRUs, and seven expansion projects at existing receiving terminals. The continued construction of new onshore terminals in established markets supports the growth of storage capacity. In newer markets, the frequent deployment of FSRUs translates into relatively lower storage capacity.

CUSTOMER SEGMENTS IN THE PHILIPPINES

In 2019, the residential, industrial and commercial segments accounted for 35.1%, 32.4% and 29.2%, respectively, of total power used in the Philippines, with the remainder consumed by other users. The following table provides data for electric power consumption in the Philippines, with each sector's percentage of sales presented as a percentage of total sales in 2019:

Electricity Sales by Customer Sector in 2019 (GWh)



Total: 87,118 GWh

Source: DOE Power Statistics 2019

Note: Others include street lights, public buildings, irrigation, energy recovered and others not elsewhere classified.

INDEPENDENT POWER PRODUCER ADMINISTRATORS

IPPAs are qualified private sector independent entities that administer and manage the contracted energy from energy conversion agreements and power purchase agreements that NPC entered into with the IPPs. IPPAs are appointed through public bidding conducted by PSALM.

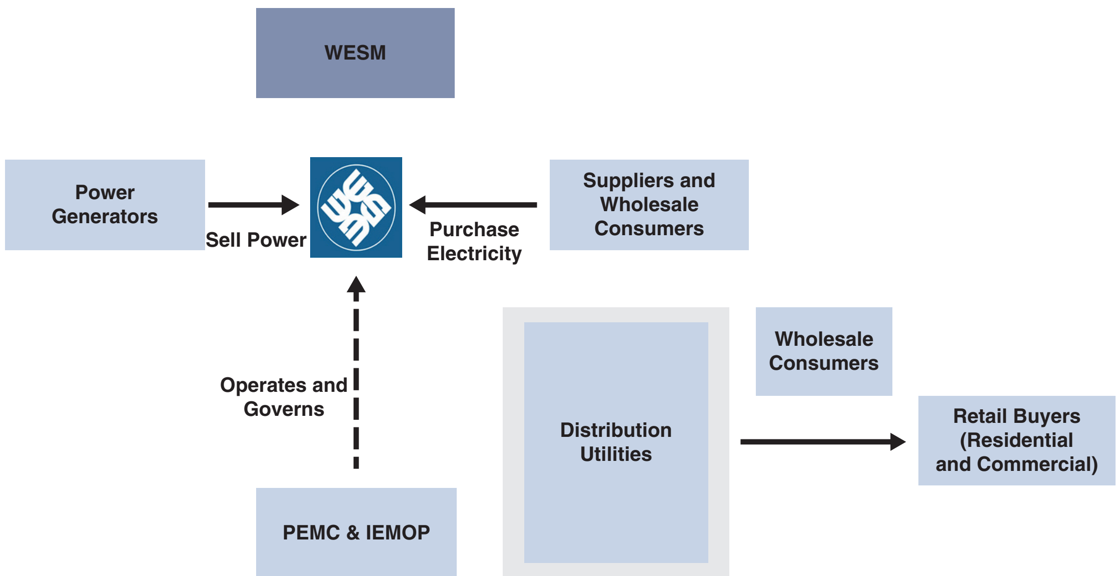
The IPPA process provides successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new plant. This is a unique way to enter the WESM. This alternative also allows investors to partake in the benefits of owning generating stations when the IPPA agreement expires. Among these benefits are: (1) controlling the fuel and its dispatch and (2) trading and contracting of the plant's capacity without the maintenance costs or capital upgrades associated with actual ownership of the plant.

NPC entered into several long-term contracts with IPPs to build or rehabilitate and/or operate power generation plants prior to the implementation of the EPIRA. A typical contract between NPC and an IPP requires fixed and variable payments from NPC to the IPP in return for electrical power output. In some of the contracts, NPC also is required to furnish fuel supplies to the IPP. NPC sells the power purchased under these contracts to distribution utilities or end-users.

Under a typical IPPA agreement, the energy offtake, which would have been delivered to NPC in the absence of an IPPA agreement, is instead delivered to the IPPA. The IPPA has the right to sell the power generated by the related IPP either to the WESM or pursuant to supply contracts with specific customers and often (but not invariably) is obligated to supply fuel to that IPP. IPPAs pay PSALM a fixed monthly payment and a variable energy or generation fee. IPPA agreements provide relief for IPPAs in the event that the associated IPPs are unable to dispatch power for a certain period of time for reasons other than the fault of the IPPA. PSALM/NPC in turn makes capacity and energy payments to the IPPs pursuant to the relevant IPP contract.

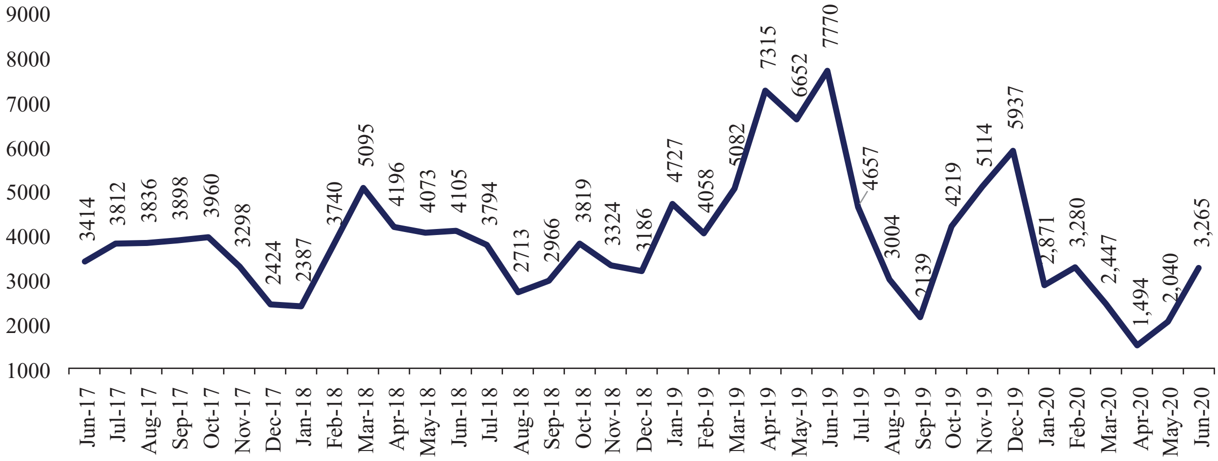
WHOLESALE ELECTRICITY SPOT MARKET

The WESM was established as part of EPIRA. The WESM provides a market in which IPPAs and other generators can sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The aim of the WESM is to provide transparent and efficient dispatch pricing. Its design is similar to the electricity markets in Australia, Singapore and New Zealand. The PEMC is the governing body of the WESM, while the IEMOP is responsible for operating the WESM. The PEMC membership is comprised of representatives from the electricity industry and is chaired by the Secretary of the DOE. The diagram below illustrates how the WESM operates:



Source: DOE, ERC

Historical WESM Average Market Prices (Q per MWh)



Source: WESM Monthly Market Assessment Reports. Note: August 2017 represents average for Luzon

In the WESM, although generators are allowed to transact through bilateral contracts, these contracts will have to be "offered" to the market for the purpose of determining the appropriate merit order of generators. Settlement for bilateral contracts will, however, occur outside the market between the contracting parties. Traded electricity not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods. Typically, the output of cost-efficient plants, such as hydroelectric plants, is dispatched first, due to a lack of corresponding fuel cost.

BUSINESS

OVERVIEW

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,362 MW of combined capacity as of June 30, 2020. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020, the Company's combined capacity increased to 4,697 MW. The Company benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and more recently, battery energy storage systems ("**BESS**"). Based on the total installed generating capacities reported in the Energy Regulatory Commission ("**ERC**") Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid, in each case, as of June 30, 2020.

San Miguel Corporation entered the power industry in 2009 following the acquisition of rights to administer the output produced by Independent Power Producers ("**IPPs**") in privatization auctions conducted by the Government through Power Sector Assets and Liabilities Management Corporation ("**PSALM**"). The following companies under the San Miguel Corporation group became the IPPA of the following plants: (1) San Miguel Energy Corporation ("**SMEC**") became the IPPA for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) Strategic Power Devt. Corp. ("**SPDC**") became the IPP Administrator ("**IPPA**") for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010; and (3) South Premiere Power Corp. ("**SPPC**") became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010 (the Ilijan Power Plant, Sual Power Plant and San Roque Power Plant are collectively referred to as the "**IPPA Power Plants**").

An IPPA under the relevant IPPA agreement has the right to sell electricity generated by the power plants owned and operated by the relevant IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the WESM.

In September 2010, San Miguel Corporation consolidated its power generation business through the transfer of its equity interests in SMEC, SPDC and SPPC to SMC Global Power. SMC Global Power also became a wholly-owned subsidiary of San Miguel Corporation. Since then, SMC Global Power has controlled the 2,545 MW combined contracted capacity of the IPPA Power Plants through the IPPA agreements executed by SMEC, SPDC and SPPC, respectively.

Building on its experience as an IPPA since San Miguel Corporation's transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant which is owned by San Miguel Consolidated Power Corporation ("**SMCPC**"), its wholly-owned subsidiary, and the 4 x 150 MW Limay Greenfield Power Plant which is owned by SMC Consolidated Power Corporation ("**SCPC**"), another wholly-owned subsidiary. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively, while Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. In November 2014, SMC Global Power, through its subsidiary PowerOne Ventures Energy Inc. ("**PVEI**"), acquired a 60% stake in Angat Hydropower Corporation ("**AHC**"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant (the "**AHEPP**"). On March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests SMCGP Masin Pte. Ltd. ("**SMCGP Masin**", formerly Masin AES Pte. Ltd.) from AES Phil Investment Pte. Ltd. ("**AES Phil**") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. ("**MPPCL**") and SMCGP Philippines Energy Storage Co. Ltd. ("**SMCGP Philippines**

Energy", formerly AES Philippine Energy Storage Co. Ltd. and together with SMCGP Masin and MPPCL, the "**Masinloc Group**")). On September 19, 2018, Prime Electric Generation Corporation ("**PEGC**"), a wholly-owned subsidiary of SMC Global Power, and Oceantech Power Generation Corporation ("**OPGC**") purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project nearing completion (together, comprising the "**Masinloc Power Plant**"), and the 10 MWh battery energy storage system project (the "**Masinloc BESS**"), all located in Masinloc, Zambales, while SMCGP Philippines Energy completed the construction and installation of the 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the "**Kabankalan BESS**") in March 2020. SMC Global Power was admitted as an additional limited partner of SMCGP Masinloc Partners Co. Ltd. in 2019 (a limited partnership under the Masinloc Group) and of MPPCL in June 2020, which is pending approval of the Philippine SEC.

As part of the purchase relating to the Masinloc power assets, SMC Global Power also acquired SMCGP Transpower Pte. Ltd. ("**SMCGP Transpower**") and SMCGCP Philippines, Inc. ("**SPHI**"). SMCGP Transpower was a subsidiary of The AES Corporation, which provided corporate support services to MPPCL through its Philippine regional operating headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provided energy marketing services to MPPCL.

In July 2018, PEGC acquired the entire equity interest of ALCO Steam Energy Corp. in Alpha Water Realty & Services Corporation ("**Alpha Water**"), representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant in Zambales Province is located.

In September 2018, PEGC and OPGC, another wholly-owned subsidiary of SMC Global Power, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

In February 2020, Strategic Energy Development Inc. ("**SEDI**") executed an agreement for the acquisition of the 15 MW multi-fuel peaking power plant ("**Tagum Peaking Power Plant**") located at Tagum City, Davao del Norte owned by EEI Power Corporation for U.S.$11 million to provide back-up power to the Davao Greenfield Power Plant.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCPC, SMELC, SEDI and MPPCL, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

The following table sets forth selected data in respect of the Company's power generation assets and interests as of the date of this Offering Circular.

	IPPA Plants			JV Plant	IPP Plant	Greenfield Plants	
	Sual	Ilijan	San Roque	Angat	Masinloc and Masinloc BESS	Davao	Limay
Type	Coal	Natural Gas	Hydro	Hydro	Coal and Battery	Coal	Coal
Commercial Operations Date	1999	2002	2003	1967 (112 MW); 1968 (100 MW); 1978 (6 MW)	1998 (660 MW); 2018 (14 MW); 2018 (10 MWh); 2020E (335 MW)	2017 (150 MW); 2018 (150 MW)	2017 (300 MW); 2018 (150 MW); 2019 (150 MW)
Year of Acquisition	2009	2010	2010	2014	2018	—	—
Total Installed Capacity (MW)(1)	1,000	1,200	345	218	1,019	300	600
Technology	Pulverized Coal	Combined Cycle	Storage Hydropower	Storage Hydropower	Pulverized Coal(6) and Battery Energy Storage System	Circulating Fluidized Bed	Circulating Fluidized Bed
Emission Levels(2)							
NOx (ppm)	182.0	—	—	—	97.3	71.3	76.4
SOx (ppm)	317.1	—	—	—	117.9	85.8	59.9
PM (Mg/Nm3)	13.8	—	—	—	53.7	4.2	10.4
Operator	TeaM Sual Corp.	KEILCO	SRPC	AHC	Mantech	Safetech	Mantech
Offtakers(3)	Meralco, ECs, DUs, DCCs, Third-Party RES, WESM	Meralco, WESM	Intercompany(4) WESM	WESM	Meralco, DUs, CCs, WESM	ECs, DUs, Industrial customers	DCCs, ECs, DUs, CCs
IPPA Expiry / Asset Transfer Date(5)	2024	2022	2028	N/A	N/A	N/A	N/A

Notes:

(1) *Includes capacity from the commencement of commercial operations of Unit 3, Masinloc Power Plant. The 335 MW expected capacity of Unit 3, Masinloc Power Plant is included in the calculation of SMC Global Power's combined installed capacity as of June 30, 2020.*

(2) *See "—Safety, Health and Environmental Regulation" for information on DENR emission standards. Emission levels for the Masinloc Power Plant excludes the Masinloc BESS and emissions from the commissioning and testing of Masinloc Unit 3. Emissions as of / for the period June 30, 2020.*

(3) *DUs: Distribution Utilities; ECs: Electric Cooperatives; CCs: Contestable Customers; DCCs: Directly Connected Customers.*

(4) *Within the SMC Global Power group.*

(5) *Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028, respectively. See "—IPPA Framework."*

(6) *The Unit 3, Masinloc Power Plant utilizes supercritical boiler technology. Units 1 and 2 of the Masinloc Power Plant utilize pulverized technology.*

SMC Global Power is also engaged in distribution and retail electricity services. In 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of Albay Electric Cooperative, Inc. ("**ALECO**"), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon.

SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three retail electricity supplier ("**RES**") licenses issued to SMC Global Power, through San Miguel Electric Corporation ("**SMELC**"), SCPC and MPPCL, allows it to enter into contracts with contestable customers and expand its customer base.

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. While the Company does not intend to develop these sites imminently, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation, one of the largest and most diversified conglomerates in the Philippines, founded in 1890 that is listed in the Philippine Stock Exchange ("**PSE**"). San Miguel Corporation has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services. The Company believes that its relationship with San Miguel Corporation allows it to draw on the extensive business networks, local business knowledge, relationships and expertise of San Miguel Corporation and its key executive officers.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power sold 15,707 GWh, 20,273 GWh, 26,133 GWh, 13,635 GWh and 11,780 GWh of power pursuant to bilateral offtake agreements and 1,520 GWh, 3,590 GWh, 1,979 GWh, 1,000 GWh and 1,057 GWh of power through the WESM, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power purchased 684 GWh, 1,144 GWh, 1,973 GWh, 759 GWh and 946 GWh of power from the WESM, respectively.

For the year ended December 31, 2019, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱135,060.0 million (U.S.$2,710.4 million), ₱14,363.5 million (U.S.$288.3 million) and ₱8,297.3 million (U.S.$166.5 million), respectively. For the six months ended June 30, 2020, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱ 57,176.5 million (U.S.$1,147.4 million), ₱9,063.1 million (U.S.$181.9 million) and ₱6,564.1 million (U.S.$131.7 million), respectively. As of June 30, 2020, SMC Global Power had total consolidated assets of ₱587,112.8 million (U.S.$11,782.3 million).

Expansion Projects

Power Plant Portfolio

Unit 3 of the Masinloc Power Plant (335 MW) completed commissioning and commenced commercial operations on September 26, 2020. The expansion of Unit 3 of the Masinloc Power Plant is fully funded and will increase the capacity of the Masinloc Power Plant by approximately 50%. Unit 3 of the Masinloc Power Plant is capable of supplying 100% of its load. The Company intends to further expand the Masinloc Power Plant by constructing an additional unit utilizing supercritical boiler technology (Unit 4) with a planned gross installed capacity of 350 MW. Masinloc Power Plant Unit 4 is targeted for completion in 2024 and the Company is currently in the process of finalizing the EPC Contract for this project.

SMC Global Power currently owns 89.54% of the equity interests in MPGC, which intends to develop, construct, finance, own, operate and maintain a coal-fired power plant and associated facilities using high efficiency low emission technologies ("**HELE Technologies**") with planned installed capacity of 600 MW in Mariveles, Bataan, expected to commence commercial operations in 2022 to 2023 (the "**Mariveles Greenfield Power Plant**"). The site development is at 47.62% completion as of August 2020 while the steam turbine for Unit 1 and the generator for Unit 2 were shipped in June 2020.

The Company, through its wholly-owned subsidiaries, including Central Luzon Premiere Power Corp. ("**CLPPC**"), plans to pursue further expansion of its power portfolio through the development and construction of a new power plant using HELE Technologies located in Pagbilao, Quezon with planned installed capacity of 600 MW and with target completion date in 2024 to 2025 (the "**Pagbilao Greenfield Power Plant**").

In addition and as part of the Company's diversification of its power portfolio into LNG, the Company, through its subsidiary Excellent Energy Resources Inc. ("**EERI**"), plans to construct an 850MW combined cycle power plant in Ilijan, Batangas (the "**Ilijan Expansion Plant")** and is evaluating utilizing natural gas for other contemplated projects, including in San Carlos City, Negros Occidental. Various EPC contractors have submitted offers for the development of combined cycle natural gas-fired power plants. These would result in capital expenditure costs of approximately U.S.$1.1 million/MW to U.S.$1.3 million/MW, compared to U.S.$2.2 million/MW for coal-fired plants The projected construction period is also faster with estimates from the same offers ranging from 1.5 to 2 years compared with the construction period for coal-fired power plants, which have historically ranged from three to four years.

The Company is also exploring various LNG regasification and storage solutions, as well as possible improvements or retrofitting of the Ilijan Power Plant. The Company has identified locations for the Ilijan Expansion Plant, and is in the process of negotiating with potential EPC contractors as of June 30, 2020. As of the date of this Offering Circular, the Company has shortlisted Siemens, MHPS, FHI, B&V, Posco and Daelim as EPC contractors for the Ilijan Expansion Plant.

The Company continues to participate in CSPs for PSAs with distribution utilities, and negotiate for RSCs with contestable customers for these expansion plans.

Natural Gas Projects

The Company, through SPPC, expects to become the owner and operator of the Ilijan Power Plant by June 2022 pursuant to the Ilijan IPPA. Simultaneously, the existing gas supply from Malampaya will expire and SPPC will need to procure its own natural gas supply. The Company believes that the natural gas volumes required by the Ilijan Power Plant can propel the establishment of natural gas projects in the Philippines as such natural gas requirements could serve as foundation volumes to be serviced by LNG suppliers.

The Company has access or control over approximately 73 hectares of land adjacent to the Ilijan Power Plant. This includes land area and properties along the shoreline with priority to use the foreshore area over a uniquely deep ocean area (15.5m draught) that is close to shore (220 km). The Company intends to locate the Ilijan Expansion Plant on these properties.

The Company has executed a binding term sheet covering terminal use agreements ("**TUA**") to be entered into by its subsidiaries SPPC and EERI for the use of an LNG terminal which will be constructed by AG&P, through its subsidiary AG&P Manila. The TUA will allow SPPC and other terminal users to receive, store and regasify LNG from the global market through the proposed hybrid LNG Terminal to be constructed by AG&P Manila in Ilijan, Batangas (the "**Ilijan LNG Terminal**"). Ilijan LNG Terminal will use modular technology, resulting in a cost-effective EPC cost and consequently, would be expected to impose a viable terminal use fee for the power plants it will service. The proposed Ilijan LNG Terminal, which is planned to begin commercial operations by June 2022, will have the following components and features:

Feature	Specifications
Storage	FSU — 137,000 cubic meters Onshore storage — 60,000 cubic meters
Regas	420 (5x82) mmscfd good for 3.0 MTPA or ~3,000 MW of Power Plant Capacity[1]
BOG Handling	Efficient LNG processing and storage, minimizing environmental impact
Mooring	Jetty, 4 berthing dolphins, 6 mooring dolphins, LNG unloading arms (cryogenic)
Balance of plant	Utilities, seawater pump, gas boiler skid, gas receiving facilities
Provision for additional capacity	Modular regasification units (provision for 5 to 6 regas units, or approx. 500 mmscfd) Modular onshore LNG storage (provision for up to 180,000 cubic meters)

The planned Ilijan LNG Terminal will be developed by AG&P. AG&P has extensive expertise in LNG regasification technologies and the development and execution of LNG infrastructure solutions to utilize natural gas for retail and power plant use. AG&P is the majority owner of GAS Entec, the pioneer for modular regasification solutions and patent holder for Regastainer ® technologies ("**Regastainer**"), which provides a versatile and reliable regasification solution for both onshore and offshore (Floating Regasification Unit or FRU) deployment.

AG&P also has a strong network of partners for LNG and its experience in LNG projects includes acting as EPC for major hybrid terminals in Asia and undertaking Regastainer fabrication and delivery for multiple projects around the world, including in Singapore, South Korea, Turkey, and across Africa.

The Company believes that AG&P has an excellent track record in Philippine construction and design, with strong Philippine manufacturing capacities including 60,000 MT per annum structural fabrication capacity, 600,000 dia-inches per annum piping fabrication capacity, and 125,000 MT per annum assembly capacity. AG&P also has a large local manpower pool and is capable of worker mobilization of up to 4,000 persons (compared to the estimated 1,000 persons necessary for constructing the Ilijan LNG Terminal). AG&P also owns a 96-hectare yard for fabrication in Bauan, Batangas, which is in close proximity to the planned Ilijan LNG Terminal. This yard is approximately 20 kilometers and approximately 37 kilometers away by barge and land, respectively. The Company believes that AG&P's proximity and capabilities provides flexibility through utilizing a modular approach to construction and offsite fabrication.

BESS Portfolio

The Company is undertaking the expansion of its portfolio of BESS projects by an additional 1,000 MWh. As part of these expansion plans, the Company has completed the construction and installation of the Kabankalan BESS (20 MWh) in March 2020. The Kabankalan BESS has also completed the ancillary services and Philippine Grid Code ("**Grid Code**") compliance tests conducted by, and negotiations for Ancillary Services Procurement Agreements ("**ASPA**") have been initiated with, NGCP. The Kabankalan BESS is currently awaiting the certificate from NGCP and inspection by the ERC. Upon receipt of a certificate of compliance from the ERC, the Kabankalan BESS can officially attain commercial operations.

In respect of permits, environmental compliance certificates ("**ECCs**") for 18 sites have been secured. Moreover, BOI registration for 31 sites have been completed, which includes 28 projects that were granted pioneer status by the BOI. Pioneer status provides these projects an extended income tax holiday of six years instead of four years (under non-pioneer status). The Company also has a pending application with the DOE to grant its BESS projects the status of Energy Project of National Significance (EPNS). EPNS status confers certain advantages which will streamline the process of obtaining permits, among others. See "*Regulation and Environmental Matters — Regulations relating to energy projects of national significance*".

In addition, the Company, through its subsidiaries UPSI, MPPCL and SMCGP Philippines Energy Storage Co. Ltd., have executed turnkey contracts with leading battery EPC contractors for an aggregate of 960 MWh (out of the 1,000 MWh) installed power capacity. In connection with this, equipment representing 220 MWh of battery modules, 360 MWh of inverters, 220 MWh of core transformers, 280 MWh of enclosures, and 80MWh of power transformers have already been delivered at storage areas. Manufacturing is ongoing for 29 of the 41 power transformers, 97,500 of the 150,000 battery modules, 196 out of 290 containers/enclosures, and 341 out of the 485 inverters.

The Company, through its subsidiaries, has executed a Memorandum of Understanding on January 21, 2020 with battery module manufacturer, Samsung SDI, which grants the Company preferential customer status and competitive pricing, performance guarantees and extended support periods and warranties, among others. Samsung SDI is recognized worldwide as a reputable battery module manufacturer, with a manufacturing process that has a 2,000-point, real-time, quality control system.

The Company has also identified and is currently evaluating additional sites that can be used to construct an additional 400-500 MWh in BESS projects across various provinces, such as La Union, Zambales, Bulacan, Pangasinan, Bataan, Cagayan, Nueva Vizcaya, Laguna, Quezon, Camarines Norte, Camarines Sur and Samar.

Of these 1,000 MWh BESS projects, 470 MWh across 15 sites is expected to be substantially complete in the course of 2020 and the first quarter of 2021, with the remaining 530 MWh across 16 sites by expected to be completed over the course of the second quarter to the fourth quarter of 2021. With regards to final completion, six sites equivalent to 190 MWh are expected to achieve final completion over the course of 2020 through the first quarter of 2021, with the remaining 25 sites equivalent to 810 MWh expected to be completed over the course of the second to last quarter of 2021. As of August 2020, overall projection completion is 32%.

	PROJECT SITE	Capacity	Substantial completion	Access to site	Site-Related Permits	BOI registration	Site Development	EPC (construction, delivery of equipment)	Interconnection	ASPA, ERC, WESM
	LUZON	**720**								
1	Albay	40	2021 Q2	100%		100%				
2	Bataan Site 1	40	2020 Q4	100%	100%	100%	100%	73%		
3	Bataan Site 2	60	2020 Q4	100%	100%	93%	100%	26%	5%	
4	Batangas	40	2021 Q2	100%		100%				
5	Bulacan Site 1	20	2021 Q2	100%		100%				
6	Bulacan Site 2	20	2021 Q2	100%						
7	Cagayan	40	2021 Q1	100%	100%	95%	95%	29%		
8	Ilocos Norte	40	2021 Q2	100%		100%				
9	Isabela	40	2020 Q4	100%	100%	95%	92%	27%		
10	La Union	20	2021 Q2	100%		100%				
11	Laguna	60	2021 Q2	100%	67%	97%	5%	3%		
12	Metro Manila	40	2021 Q2	100%	100%	100%	5%			
13	Nueva Ecija	20	2021 Q2	100%		100%				
14	Pampanga	60	2021 Q2	100%	100%	97%	30%	5%		
15	Pangasinan Site 1	60	2020 Q4	100%	100%	93%	100%	39%		
16	Pangasinan Site 2	40	2021 Q2	100%		100%				
17	Tarlac	60	2021 Q2	100%	100%	93%	50%	24%		
18	Zambales	20	2020 Q4	100%	100%	90%	100%	20%		
	VISAYAS	**190**								
19	Bohol	20	2020 Q4	100%	100%	100%	100%	2%		
20	Cebu Site 1	20	2020 Q4	100%	80%	100%	100%	73%		
21	Cebu Site 2	20	2021 Q2	100%		100%				
22	Cebu Site 3	20	2021 Q2	100%		100%				
23	Iloilo	20	2021 Q2	100%		100%				
24	Leyte Site 1	40	2021 Q1	100%	100%	95%	3%	73%		
25	Leyte Site 2	20	2021 Q1	100%	100%	100%	80%	23%		
26	Kabankalan, Negros Occidental Phase 1	20	2020 Q4	100%	100%	100%	100%	99%	100%	
	Kabankalan, Negros Occidental Phase 2	10	2020 Q4	100%	100%	100%	100%	8%	100%	
	MINDANAO	**90**								
27	Davao del Norte	10	2021 Q2	100%	50%					
28	Davao Site 1	20	2020 Q4	100%	100%	100%	100%	52%	5%	
29	Davao Site 2	20	2020 Q4	100%	100%	100%	90%	31%		
30	Misamis Oriental Site 1	20	2020 Q4	100%	100%	100%	100%	8%		
31	Misamis Oriental Site 2	20	2020 Q4	100%	100%	100%	100%	14%		
	TOTAL	**1,000**								

* *Per project site completion as of August 2020.*

IMPACT OF COVID-19 AND RECENT DEVELOPMENTS

The COVID-19 Pandemic

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization. As of June 30, 2020, there have been over ten million confirmed cases worldwide and as of August 31, 2020, there were over 220,000 confirmed cases in the Philippines. Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

The Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine ("**ECQ**") was imposed on the island of Luzon, including Metro Manila. Initially, the ECQ was set to end by April 12, 2020 but was subsequently extended for two-week periods until May 15, 2020 (the period from March 16, 2020 through May 15, 2020, the "**ECQ period**"). Under the ECQ guidelines, restrictions on movement outside of the residence were set in place (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products such as hygiene products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as hospitals, power and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity.

After the ECQ was lifted in certain areas, a modified ECQ ("**MECQ**"), general community quarantine ("**GCQ**") or modified GCQ ("**MGCQ**") was implemented. On June 1, 2020, Metro Manila was placed under GCQ, which allowed certain sectors, including agriculture, food manufacturing and all supply chains, packaging and raw materials, supermarkets and logistics, among others, to resume full operations. The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations. The Philippine government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. Metro Manila was again placed under MECQ again from August 4 until August 18, 2020. As of the date of this Offering Circular, Metro Manila is under GCQ.

The day-to-day operations of the Company, being primarily engaged in power generation, were not significantly affected by the ECQ or other graduated quarantine measures because the Government considers power generation as an essential service and operations related thereto continue to be permitted. As a result, the Company's power generation activities and the ongoing repairs and preventive maintenance works remain generally unhampered.

Impact on the Company

The demand from industrial customers in the Luzon grid decreased significantly during the ECQ period as a result of the cessation or suspension of business operations, but has gradually increased with the transitions from ECQ to MECQ and GCQ, as the gradual reopening of economic activities was permitted in Metro Manila. In contrast, the demand from most of the Company's utility customers increased compared to their historical demand, which more than compensated for the reduction of industrial demand. Notably, a significant portion, of utility demand represents residential and small-scale industrial customers and commercial businesses, which had consistent and levelled load profiles throughout the quarantine periods, resulting in improved fuel and operational efficiencies in the Company's power plants. From the Company's perspective, its bilateral energy volumes were derived mainly from contracted capacity with utility companies. Their respective PSAs mostly require a take-or-pay arrangement or impose minimum offtake volumes, which thus allow the Company to continuously bill these customers at the relevant contracted volumes even during the various community quarantine periods.

Prior to the ECQ period, the industry was gearing up for peak generation. Currently, gross installed capacity in Luzon is at 16,000 MW, out of which about 10,000 MW is considered as reliable. The DOE ensured that all generating units continued to operate at full capacity during the ECQ period, in spite of the low demand that resulted to the unusually low WESM prices for the period, ranging from ₱0.00/KWh to ₱1.00/KWh during certain intervals.

Prior to and during the ECQ period, certain power generating units of the Company were approved by the relevant regulators to shut down for various technical reasons, including for advanced preventative maintenance works. These were Units 3 and 4 of Limay Greenfield Power Plant and Units 1 and 2 of Masinloc Power Plant, accounting for almost 1,000 MW in total installed capacity. In addition, the commencement of commercial operations of Unit 3 of the Masinloc Power Plant was rescheduled to September 26, 2020. To minimize unfavorable exposure to WESM during the ECQ period, the Company ensured that not more than 3% of net generation volumes were sold to the spot market. The Company also leveraged on low WESM prices by purchasing up to 14% of its bilateral volume requirements from WESM; prior to the ECQ, the Company would purchase less than 5% of its requirements from the market. The Company also reviewed contract terms with certain industrial customers and negotiated for a reduction in maximum allowable capacity totaling to about 91 MW, which aids in reducing risk of demand variances during periods of uncertainty.

The Company's PSAs with distribution utilities and Meralco baseload were generally unaffected by the various community quarantine measures, as these comprise mostly demand from residential customers and small-scale industrial customers and commercial businesses, which generally have steady load profiles and as such, are not susceptible to peaks and drops in demand. These distribution utilities and Meralco baseload comprise more than 50% of the Company's bilateral demand and have maintained a steady load factor of around 75% to 80% throughout the community quarantines. However, during the ECQ period, the Company's customer groups representing commercial and industrial customers registered a 39% drop in demand due to government-mandated restrictions on their industrial activities. The impact of this drop in demand was mitigated by optimizing maintenance outage schedules, generation portfolio bids and dispatch, and bilateral volume nominations to maintain WESM exposure at ideal levels given the low prevailing spot prices. Demand from industrial customers recovered substantially when the quarantine protocols were relaxed in June 2020. All of these, along with higher Meralco mid-merit nominations, improved overall bilateral demand and helped the Company in achieving its target EBITDA as of June 2020.

In terms of fuel and inventory, the Company has sufficient inventory to meet the requirements of its power plants. Access to fuel shipments have not been adversely affected by the COVID-19 travel restrictions and there have been no cases of delivery disruptions on coal, even during the height of the ECQ period. The Company maintained a physical inventory equivalent to 28.50 days operations in aggregate for its coal-fired power plant portfolio as of June 30, 2020. The Company has also negotiated for the deferral of certain coal shipments in alignment with downstream demand. Another contributor to achieving targeted margins was the low price of coal this year. In 2019, Newcastle was approximately U.S.$80/MT and for the first half of 2020, it was approximately U.S.$60/MT. The Company has entered into fixed price contracts for coal, which have been at historical lows, allowing it to have competitive coal fuel costs.

As part of the Government's ECQ measures, the ERC and the DOE issued separate advisories allowing the deferred payment of power bills falling due within the ECQ period. Such bills may be paid over four equal monthly installments. As of June 30, 2020, the Company has outstanding net trade receivables inclusive of VAT amounting to ₱27.6 billion. Of this amount, ₱3.69 billion is overdue driven primarily by COVID-19 related concessions negotiated with customers and/or reprieves allowed by the DOE and ERC. These outstanding amounts are primarily accrued from credit-worthy distribution utilities such as Meralco, and various industrial customers, and are expected to be collected within the next 12 months. As the Company's consolidated unrestricted cash and cash equivalents as of June 30, 2020 amounted to ₱93.0 billion, the Company believes that it has sufficient funds to continue settling its obligations as they fall due while accommodating the deferred payment schemes availed of by its customers, and even if it does not avail of a corresponding payment deferral as may be allowed by the regulators.

Measures Taken to Ensure Safety and Well-Being

To ensure a safe return to work, the SMC Group purchased polymerase chain reaction ("**PCR**") testing kits to cover the estimated 70,000 employees, consultants, partners and service providers in the SMC Group's system, including SMC Global Power's employees. On July 3, 2020, SMC opened its own COVID-19 testing center which can process up to 4,000 tests daily. SMC Global Power has been cautiously allowing employees to return to the workplace and has provided protective gear and vitamins to employees as well as certain incentives in addition to regular pay.

The Company has also taken measures to ensure employee safety and well-being and to protect its facilities, which include, but are not limited to, checking the temperature of employees and other persons when they enter its offices and facilities, maintaining an adequate supply of alcohol and hand sanitizers for use at the premises, requiring employees to wear masks and other protective clothing as appropriate, minimizing in-person meetings, and implementing additional cleaning and sanitization routines.

In addition and as a critical safety measure to prevent the spread of COVID-19 cases and ensure operational resiliency, power plant personnel stay in the plant premises and are provided with the necessary accommodations, including food and other essential supplies during the relevant quarantine periods. A "No RT-PCR Test, No Entry" policy has also been implemented for all employees and third-party contractors working in the Company's power plants. In addition, support functions have been placed under flexible work arrangements (i.e. work from home, skeletal work force). These measures allow the Company to operate its power plant portfolio continuously and at levels sufficient to meet its bilateral volume commitments to its customers notwithstanding economic and logistical challenges faced in the ongoing pandemic. The "No RT-PCR Test, No Entry" policy continues to be strictly implemented in all the facilities of SMC Global Power, which prevented the spread of the virus to plant personnel and third party contractors in the Masinloc Power Plant. The Company, in coordination with the Municipality of Masinloc have also worked together on the effective containment of the virus in the Masinloc Power Plant. As of the date of this Offering Circular, all the discovered cases in Masinloc have fully recovered. The Company has ensured that all employees who have tested positive are cared for and has taken steps in protecting all employees by strictly following safety protocols. To date, all these employees have either fully recovered or are recovering well.

The Company continues to review and will implement the necessary changes to its operations and business processes as well as its capital expenditure plans in view of the global and local economic factors as a result of the COVID-19 pandemic. SMC Global Power places equal importance to maintaining and, in certain aspects, even improving its financial position and financial performance during the community quarantine period and for the rest of the year.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGIES

Competitive Strengths

Industry leader with a strong growth platform.

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,362 MW of combined capacity as of June 30, 2020. Following the commencement of commercial operations of Masinloc Power Plant Unit 3 as of September 26, 2020, the Company's combined capacity increased to 4,697 MW. SMC Global Power controls the capacities of among the largest baseload plants in the Philippines, including the Sual Power Plant (the largest coal-fired power plant in the Philippines in terms of installed capacity) and the Ilijan Power Plant (the largest natural gas power plant in the Philippines in terms of installed capacity). The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC, SMCPC and MPPCL, the owners of the Limay Greenfield Power Plant, the Davao Greenfield Power Plant and the Masinloc Power Plant and Masinloc BESS, respectively. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid, in each case as of June 30, 2020.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for power plant construction, or to bear any related development risk or ongoing preventive maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell the power generated by the IPPs either pursuant to bilateral offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

SMC Global Power's experience in acting as IPPA and its history of power plant ownership and operation has enabled it to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power embarked on its own greenfield power projects and pursued strategic acquisitions. It believes that it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity, including NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, cost competitive baseload plants and renewable energy power plants.

To capitalize on changes in the Philippine regulatory structure, SMC Global Power, through SMELC, SCPC and MPPCL, holds RES licenses from the ERC, allowing the entry into offtake agreements with contestable customers. SMC Global Power, through SMEC and its subsidiaries, also maintains coal concession assets which, depending on prevailing global coal prices and the related logistical costs, may be tapped to serve as a back-up fuel source for its greenfield coal-fired power plants.

SMC Global Power is expected to expand its market leadership with its ongoing and future expansion that is anchored on cost competitive baseload plants. In addition, SMC Global Power is actively pursuing battery energy storage technology investments and initiatives in the Philippines that will help regulate the transmission grid over the Philippine archipelago, which is inherently prone to voltage and frequency instability.

Well-positioned to capture future demand growth.

Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW, which is broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. In its Power Demand and Supply Outlook 2018-2040 report as of October 2018, the DOE increased its forecasts and projected that additional 62,248 MW in installed capacity will be necessary, which is broken down as follows: 10,955 MW for baseload, 10,035 MW for peaking, 34,798 MW for variable, and 6,460 MW for flexible technologies. Moreover, based on the Company's estimates, despite the continuing build-up of installed capacity, net reliable capacity remains insufficient to meet peak demand. This considers the entry of variable capacities, composed primarily of intermittent renewable energies such as solar and wind, as well as the introduction of flexible technologies, such as BESS, which compensate for the intermittency of the variable capacities.

For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya, supplying 25% to 30% of net reliable capacity, may result in a reduction of energy generated by natural gas power plants beginning 2022. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the expected power supply shortage. The latter is exacerbated by an existing base of aging power plants, which will be over 20 years old by 2022 (currently representing 60% of net reliable capacity) and are thus prone to unscheduled shutdowns as well as a large base of seasonal power supply, such as hydropower plants in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in hydroelectric power and solar power projects and complementary technologies such as BESS.

SMC Global Power's expansion projects include the Unit 3 of the Masinloc Power Plant (335 MW), which has undergone commissioning and is currently capable of supplying 100% of its load. Unit 3 commenced commercial operations on September 26, 2020. In addition, the Company has completed the construction and installation of the Kabankalan BESS (20 MWh) in March 2020 with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 89.54% of the equity interests in MPGC, which plans to develop, construct, finance, own, operate and maintain a 600 MW coal-fired power plant and associated facilities using HELE Technologies in Mariveles, Bataan. The site development is at 47.62% completion as of August 2020 while the steam turbine for Unit 1 and the generator for Unit 2 were shipped in June 2020. The Company plans to expand its power portfolio through the development and construction of the Ilijan Expansion Plant and further expansion of the Masinloc Power Plant (Unit 4) by 350 MW.

The Company believes that the increase in demand for electricity will also lead to growth in the ancillary reserve requirements of the country, which creates significant opportunities for BESS projects. The Company believes that it is well-positioned to capture growth in the reserve market through the expertise it has gained from operating the Masinloc BESS, the first of its kind in the Philippines. The Masinloc BESS provides more efficient ancillary services compared to other technologies, particularly for frequency regulating reserves, because of its instantaneous response time and ability to charge and discharge power. The Company plans to utilize advanced lithium-ion battery technologies such as nickel-cobalt-manganese (NCM) based lithium-ion batteries which generally have longer useful lives (estimated at 8,200 cycles), high voltage capabilities, large storage capacity and improved roundtrip efficiencies.

Finally, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increase in electricity demand.

Stable and predictable cash flows.

SMC Global Power, through its subsidiaries, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. A substantial portion of the combined installed capacity of SMC Global Power is covered by bilateral contracts that cover the term of the IPPA Agreements, where applicable. Revenue from bilateral contracts with offtakers contributed 95%, 91%, 94%, 93% and 95% of total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. For the six months ended June 30, 2020, approximately 46% and 45% of the Company's consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on the publicly available disclosures of Meralco, the largest distribution utility in the Philippines, SMC Global Power is one of Meralco's largest power suppliers as of June 30, 2020, supplying approximately 22% of Meralco's power purchases. In addition, the Company is a dominant player in the RES markets where it operates, based on data obtained from the ERC as of June 30, 2020.

On September 13, 2019, Meralco issued notices of award to SMEC and SPPC for PSAs for 330 MW and 670 MW, respectively, to supply its baseload power requirements from December 26, 2019 until December 25, 2029. In addition, on September 16, 2019, Meralco issued another notice of award to SPPC for the supply of 290 MW of mid-merit power requirements from December 26, 2019 until December 25, 2024. The three contracts have been executed between Meralco and the relevant IPPAs, subject to ERC approval.

These contracts were awarded following the Supreme Court's decision on May 3, 2019 ruling that all PSAs of distribution utilities and electric cooperatives should undergo CSP. This effectively invalidated certain PSAs of Meralco for its greenfield demand totaling almost 3,600 MW. As a result, the DOE moved to immediately implement the CSP requirement and Meralco proceeded to bid out several power supply requirements requiring brownfield and greenfield power sources totaling 1,700 MW and 1,200 MW, respectively. While the Company was awarded an aggregate of 1,290 MW of the 1,700 MW brownfield requirements that were successfully bid out, the CSP for the 1,200 MW greenfield requirement was declared a failure of bidding. MERALCO, in early 2020, secured the approval of the DOE for the CSP of 1,800 MW greenfield baseload capacity for its requirements in 2024/2025, which includes 1,200 MW capacity from the failed CSP in 2019 and an additional 600 MW from the target 1,500 MW baseload capacity scheduled for bidding in 2020. In addition, Meralco is expected to bid out additional greenfield requirements in the next few years. The Company believes this is an opportunity for SMC Global Power to contract its ongoing and planned expansion projects with Meralco and plans to participate in the bidding of the greenfield requirements.

These offtake agreements provide SMC Global Power, through its subsidiaries, with stable and predictable cash flow by enabling it to manage both market and price risks. Despite the general volatility in market prices for electric power due to supply and demand imbalances, SMC Global Power has been able to manage such risks through the contracted sale prices with offtakers, which also provide a long-term stable source of demand. Majority of the tariffs under these agreements take into account adjustments for fuel, foreign exchange, and inflation, thereby allowing SMC Global Power to pass through these costs to its offtakers. In addition, SMC Global Power's diversified portfolio of baseload and peaking power plants helps mitigate market risks through long-term, intercompany, replacement power contracts.

Flexible and diversified power portfolio.

SMC Global Power has a portfolio that includes some of the newest and largest power plants in the Philippines. The baseload and peaking plants with diversified fuel sources of the Company allow it to manage costs and offer more competitive baseload power rates. In addition, the Company also has capacity from its BESS facilities, which can provide more efficient ancillary services, and has synergistic effects with renewable technologies, among other applications. In particular, BESS technologies can strengthen the stability of a grid, while improving power quality.

As of June 30, 2020, the major power assets of SMC Global Power consist of (i) the IPPA Power Plants administered by the Company, through its subsidiaries, as the IPPA (comprising the Sual Power Plant with SMEC as IPPA representing 23% of SMC Global Power's capacity, the San Roque Power Plant with SPDC as IPPA representing 8% of SMC Global Power's capacity and the Ilijan Power Plant with SPPC as IPPA representing 27% of SMC Global Power's capacity), (ii) the AHEPP, through AHC, which represents 5% of the capacity of SMC Global Power, and (iii) the power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 14% of the capacity of SMC Global Power, the Davao Greenfield Power Plant, which represents 7% of the capacity of SMC Global Power, and the Masinloc Power Plant (with the Masinloc BESS), which represents another 16% of the capacity of SMC Global Power. The portfolio of the Company increased by 335 MW with the commercial operations of Unit 3 of the Masinloc Power Plant on September 26, 2020.

Power generated by the Sual Power Plant, Ilijan Power Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant, is primarily used as baseload supply and sold to customers pursuant to bilateral offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates. The entire capacity of the 10 MWh Masinloc BESS is contracted to the NGCP and provides regulating reserve ancillary services to the Luzon Grid under an ASPA.

As of June 30, 2020, SMC Global Power's coal-fired plants accounted for approximately 59% of its capacity. In addition to the baseload coal-fired plants, the Company intends to increase its LNG capacities and BESS capacities, which together contribute to increasing the diversity of its generation portfolio. This is guided by the existing energy policy of the Government to provide relatively inexpensive and reliable power to residential and commercial customers without the need for subsidies or escalating tariffs. Feed-in-tariffs for renewable energy projects have been phased out by the Government, which makes it more challenging to embark on large-scale renewable energy projects. SMC Global Power continues to closely monitor all relevant fuel options, including renewables. The planned expansion of its BESS portfolio and gas-fired generation capacity reflects the Company's objective to reduce its overall carbon emissions and support the Government's climate policies and objectives, including the Philippines' commitments under the Paris Agreement.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of the Company and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power and its subsidiaries can enter into bilateral contracts and trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA Power Plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners.

The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. The Company also has strong working relationships with world-class EPC providers, such as Formosa Heavy Industries for its greenfield power plants, and battery EPC providers such as Fluence Energy, Inc. ("**Fluence**," a joint venture between Siemens and AES) for the Masinloc BESS and Kabankalan BESS and ABB, Inc. ("**ABB**") and Wartsila Finland Oy ("**Wartsila**") for BESS projects in the pipeline. The Company has also entered into and is forging new and strategic relationships with AG&P, for the Ilijan LNG Terminal through the TUA, and other LNG players, particularly for LNG Supply and for EPC of the Ilijan Expansion Plant.

SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

A member of the San Miguel Corporation group of companies.

The principal shareholder of SMC Global Power, San Miguel Corporation, is one of the largest and most diversified conglomerates in the Philippines, with sales equivalent to approximately 5.5% of Philippine GDP in

2019. In addition to its power business, San Miguel Corporation has market-leading businesses in vital industries that support the economic development of the country, including food and beverages, packaging, fuel and oil, infrastructure, property and investments in car distributorship and banking.

Under the stewardship of San Miguel Corporation, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period of time. San Miguel Corporation provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of San Miguel Corporation, its in-depth understanding of the Philippine economy and expertise of its senior management to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of San Miguel Corporation, SMC Global Power believes that it can benefit from potential revenue and operational synergies and potentially provide a large captive energy demand base for SMC Global Power.

Experienced and highly competent management team.

The senior management of SMC Global Power has extensive experience in the Philippine power industry and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, TransCo, NGCP, PEMC and ERC, as well as other government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have an average of more than 25 years of experience in executive management and related government experience in the power industry, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

Strong commitment to stringent environmental policies and pollution controls.

SMC Global Power closely supervises, controls and processes improvements in the power plants it owns and operates to ensure that regulated emissions are within and below applicable environmental compliance standards. For example, the Company uses CFB technology in its Limay Greenfield Power Plant and Davao Greenfield Power Plant. CFB technology is a technology employed to transform coal into a fuel source that is relatively low in pollutant emissions. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as burning coal at low temperature and pressure, chemically washing minerals and impurities from the coal, gasification, treating the flue gases with steam to remove sulfur dioxide, carbon capture and storage technologies to capture the carbon dioxide from the flue gas and dewatering lower rank coals (brown coals) to improve the calorific value, thereby improving the efficiency of the conversion into electricity. In addition, CFB plants have other elements that reduce emissions, such as fine coal grinders, limestone injections, and electrostatic precipitators to capture dust particles that escape the boiler. See "— *Safety, Health and Environmental Regulation*."

The Company is committed to further reduce its emissions. Masinloc Power Plant Unit 3 uses supercritical boiler technology which, relative to an ordinary PC boiler (subcritical), has a significantly better combustion process resulting to improved heat rate of coal, which means less coal is required to produce a megawatt of electricity. The technology also allows the use of lower CV and lower sulfur coal, which is a key factor to lower SOx emissions.

In 2018, the Company won the following Asian Power Awards: Environmental Upgrade of the Year (Limay Greenfield Power Plant), Power Utility of the Year — Philippines (Davao Greenfield Power Plant) and Innovative Power Technology of the Year Philippines (Masinloc Power Plant). The Asian Power Awards recognize ground-breaking projects and trailblazing initiatives in the power sector in Asia. In 2019, the Davao Greenfield Power Plant was once again awarded by Asian Power Awards as the Power Utility of the Year — Philippines and Environmental Upgrade of the Year — Philippines for its carbon sink and bioindicator project. In the same year, the Masinloc Power Plant also garnered two awards, namely the Power Plant Upgrade of the Year

— Philippines for its Ship Unloader Upgrade, and the Information Technology of the Year — Philippines for its SAP S4 and ARIBA Migration and Implementation project.

Moreover, SMC Global Power has dedicated teams who monitor environmental compliance with international standards. For example, the Sual Power Plant has an Environmental and Management System Certificate (ISO 14001), Occupational Standard on Health Safety Certificate (ISO 18001) and Quality Management System Certificate (ISO 9001). The same ISO certifications were received by the Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate (ISO 18001) in 2014, and the Asset Management System (ISO 55001) in 2018. The Davao Greenfield Power Plant was the first power plant in the Philippines to receive an Energy Management System Certificate (ISO 50001) in December 2018. The Davao Greenfield Power Plant received its certification for Asset Management System (ISO 55001) in October 2019.

Business Strategies

Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins.

SMC Global Power (a) proactively manages its sales in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (ii) engaging in power trading through the WESM, and (b) optimizes the operations of its power plant portfolio through maximizing plant utilization, improving individual account and plant margins and minimizing the impact of supply interruptions. This approach provides SMC Global Power with the certainty and predictability of sales from its contracted capacity while being able to realize trading opportunities from the WESM to enhance its margins. The objective of SMC Global Power is to supply power based on the least cost, and to sell available excess power through the WESM at favorable prices.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of its power plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque Power Plant or with energy purchased from the WESM. In the event of tripping or shutdown of any of its power plants, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

The Company plans to utilize capacity from its planned BESS for ancillary services to the grid, particularly frequency regulating reserves, through long-term ASPAs, which have terms of up to 10 years. The Company may also contract, as applicable, for other applications such as renewables integration, power quality improvement and arbitrage.

SMC Global Power also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

Well-positioned as a leading baseload power generator utilizing clean power technologies.

The Company's greenfield projects in the pipeline include the planned LNG Ilijan Expansion Plant as well as clean coal-fired plants utilizing CFB and supercritical coal (e.g., Units 3 and 4 of Masinloc Power Plant) technologies. These technologies generally have lower emissions compared to the applicable benchmarks, as well as higher thermal efficiency levels, particularly for natural gas and supercritical coal plants. Capacities from these greenfield plants are well-suited to providing baseload generation to the Philippines, have high availability factors (with the existing Ilijan Power Plant registering an availability factor of 99.3% for the first half of 2020), and are generally strong contenders for securing downstream PSAs, which require HELE technologies.

The Company believes that the proposed location of the Ilijan Expansion Plant adjacent to the existing Ilijan Power Plant will create significant operational benefits given the planned Ilijan LNG terminal. When constructed, the Ilijan LNG Terminal will be capable of receiving, storing, and regasifying LNG from the global market and supplying the LNG volume requirements of the Ilijan Power Plant and the Ilijan Expansion Plant. As the Ilijan Power Plant and Ilijan Expansion Plant are expected to be its major customers, these plants could negotiate for competitive terminal use rates, as well as preferential treatment and rights for terminal capacity under future TUAs. For example, the Company has already negotiated for certain terms under the TUA, which it believes would be advantageous as it expands its portfolio of natural gas power plants. These terms include “foundation customer status”, which would prioritize the Company’s LNG processing requirements, availability guarantees of up to 97%, and other fixed and essentially viable pricing for a term of up to 20 years. The Company has also negotiated for the Ilijan LNG Terminal to be accorded “priority project status” by AG&P over AG&P’s other projects, which will help ensure supply of natural gas to the Ilijan Power Plant beyond its IPPA.

The Company believes that its existing and planned natural gas power plant capacities serve as an anchor to its further diversification into clean power technologies and provide a strong foothold for the growth of natural gas power in the Philippines. The Company, through its subsidiary SPPC, expects to become the owner and operator of the Ilijan Power Plant pursuant to the terms of its IPPA agreement. When the planned 850 MW Ilijan Expansion Plant is completed, the Company is expected to have in operation 2,050 MW of natural gas power plants requiring the equivalent of about 1.2 million tons of LNG per annum or approximately one to two full load LNG carriers per month, which LNG can be sourced from the global market. In view of its existing downstream PSAs including its Meralco contracts, the Company believes that this volume requirement is significant and firm, and would allow the Company to competitively negotiate for its LNG supply. This could in turn create further operational flexibilities and reduce its downstream electricity tariffs. The Company is evaluating three offers from major players in the oil and gas industry for the future supply of LNG with fixed pricing for 10-years and flexible delivery terms, including the ability to defer or accelerate delivery schedules subject to downstream requirements aligned with PSAs.

The Company believes that currently, the constructive environment for LNG-related initiatives provides a viable path for the sustainable growth of its portfolio. The Company expects these factors to favorably impact the cost of generating electricity from natural gas and allow it to compete with other baseload capacities, particularly coal. In the past, the Company viewed the approximate ₱1.1/kwh differential of LNG fuel costs versus comparable coal technologies costs (based on 2018 average Newcastle and JKM fuel prices) as a major hurdle for the growth of natural gas-fired power generation. The decline in LNG prices in the market has narrowed this differential to ₱0.30/kwh based on prices in June 2020. The Company believes that this price differential may narrow further in view of current market conditions.

To be a leading player in the ancillary reserve market and renewable energy initiatives through strategic establishment of battery energy storage systems across the Philippines.

SMC Global Power believes that it has a strong competitive advantage on BESS as ancillary services provider and plans to leverage on its experience operating the Masinloc BESS, the first of its kind in the Philippines, and become a leading BESS player in the Philippines by expanding its portfolio of BESS projects to about 1,000 MWh, 470 MWh of which is expected to be substantially complete in 2020 and the first quarter of 2021 and the remaining 530 MWh in 2021. In addition, of the planned 1,000 MWh, 720 MWh is expected to be located in Luzon, 190 MWh in Visayas and 90 MWh in Mindanao. Furthermore, the Company has acquired ownership or has entered into agreements with rights of access or possession of 31 sites, which are in advanced stages of development. NGCP has issued 25 system impact studies and 24 facility studies relating to these projects. In addition, 28 registration certificates have been issued by the BOI. As part of its plan to expand its portfolio of BESS projects, the Company has entered into agreements with its EPC contractors, Fluence, ABB and Wartsila. Notably, Fluence and ABB have agreed to provide their services exclusively to the Company in the Philippines, while Wartsila has agreed to exclusively act as EPC contractor in selected sites in the Philippines.

Integral to this expansion plan is the strategic locations of BESS facilities across Luzon, Visayas and Mindanao. The Company has identified key locations where there are power quality problems or renewable energy projects and plans to install facilities in close proximity to the substations of the grid. For example, the Kabankalan BESS is located in Negros Island in the Visayas region. Negros has a demand of 360 MW, but majority of the capacity in the island comes from solar plants with a total capacity of 330 MW. In particular, the Company has identified the area next to Kabankalan substation, as an ideal location for the BESS project.

The Company believes that given the increasing entry of renewable energy sources, which by their nature are susceptible to inconsistent and sometimes unreliable output, coupled with the sustained growth of electricity demand over the medium to long term, the market for reserve power and ancillary services will grow significantly. For example, the Masinloc BESS currently provides intra-hour instantaneous frequency regulating reserves to the grid, which helps maintain the grid frequency, or the balance between supply and demand in the electricity networks. Compared to other technologies, BESS provide frequency regulation reserves by charging and discharging from and to the grid, effectively doubling its ability to regulate grid frequencies.

BESS can complement renewable technologies, such as solar and wind, by compensating for sudden drops in generation of these plants due to natural phenomena, or by storing energy from these renewable sources for use during those periods where energy demand from the grid is highest. As such, BESS can support and complement the entry of renewable energy projects. As such, SMC Global Power also envisions maximizing the sites of future BESS projects by evaluating the possibility of establishing renewable technologies, such as solar and wind (based on the availability of the resource for the area) alongside the planned BESS facilities. Such integrated renewable energy sources and BESS facilities are expected to provide clean, reliable, and resilient sources of energy and reserves to the grid.

In addition to supporting the entry of renewable energy, the Company plans to develop a variety of battery applications in partnership with leading battery developers in the world. These include the provision of power quality improvement, peak-shaving, energy aggregation, network upgrade deferral, black start, microgrid application, and other ancillary services, such as reactive power support and contingency reserves.

Continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments.

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. The Company plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity. The Company balances the need for reliable and cost-efficient operations with environmental performance, and views clean coal technologies and LNG power plants as viable and sustainable options for its greenfield power projects.

In addition to its strategy to grow its power portfolio, the Company is focused on further investments in battery technology to add to the existing 10 MWh Masinloc BESS and the 20 MWh Kabankalan BESS. SMC Global Power also actively seeks to identify and pursue renewable energy investments such as hydroelectric power and solar power projects, subject to the outcome of viability and feasibility analyses. This is in line with the Company's objective to operate in an environmentally-responsible manner, while taking into consideration energy security and affordability to its consumers.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon Grid and Visayas Grid, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in areas with the closest proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. See " — *Overview — Expansion Projects*." SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power is confident from its experience in building the Limay and Davao Greenfield Power Plants that it will be able to build new cost competitive plants.

Vertically integrate complementary businesses in order to diversify its energy portfolio.

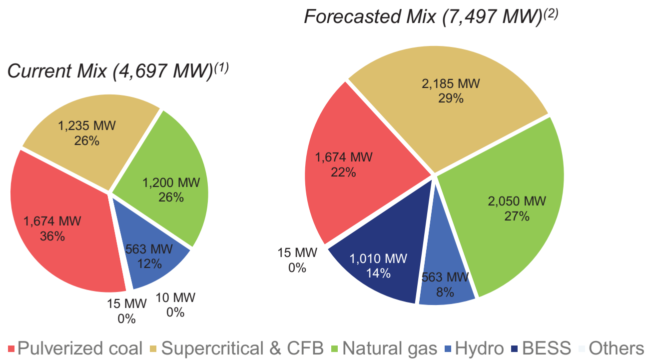
SMC Global Power continues to expand into businesses along the power sector value chain that complement its current power generation business. The Company has obtained RES licenses, through SMELC, SCPC and MPPCL, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES licenses allow SMC Global Power to enter into retail electricity supply agreements with contestable customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations.

Furthermore, depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could initiate coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao held through SMEC and its subsidiaries. SMC Global Power could develop these assets, which could potentially provide a significant additional source of coal fuel for its planned and existing greenfield power plants. SMC Global Power believes that the successful integration of viable coal mining operations into its power generation business could provide it with an additional competitive advantage over its competitors in the local power industry.

Continue to pursue and develop measures to reduce emissions and operate power plants within and below applicable environmental compliance standards.

SMC Global Power continuously supervises, controls and improves processes in the power plants it owns and operates to ensure that regulated emissions from operations are within and below applicable environmental compliance standards. With the addition of its BESS capacities and planned LNG generation capacities, the Company anticipates improvements in its emissions performance, including carbon emissions intensity, on a portfolio basis. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards. See "— *Safety, Health and Environmental Regulation*."

With its current mix of greenfield power projects, the Company anticipates to significantly reduce the proportion of power generated from traditional pulverized coal technologies in its portfolio by 2024 as it transitions towards high growth, low emission, viable frontier technologies, such as its 1,000 MWh BESS projects and LNG initiatives. The Company expects this to result in the proportion of power generated from pulverized coal technologies to decrease from 36% to 22% by 2024.



Notes:

(1) *Mix as of June 30, 2020. Excludes the Kabankalan BESS and Tagum Peaking Power Plant (0.34%). Masinloc BESS represents 0.23% of installed capacity.*

(2) *2024 Expected Fuel/Technology Mix of SMC Global Power includes the 600 MW Mariveles, 350 MW Masinloc U4, 850 MW Ilijan Expansion, and 1,000 MWh BESS expansion projects.*

Leverage operational synergies with San Miguel Corporation group of companies.

SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with the other subsidiaries and affiliates of San Miguel Corporation for the sale and supply of power. In addition, SMC Global Power, through its subsidiaries, Daguma Agro, Bonanza Energy and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

IPPA FRAMEWORK

PSALM, together with NPC, has ECAs or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA Agreements, such as those held by SMC Global Power, through SMEC, SPDC and SPPC.

Under IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and through PSCs with specific customers. In addition, the IPPAs generally manage the procurement of the fuel supply to the associated IPP where applicable. The IPPA has to pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA Agreements provide relief for IPPAs such as SMC Global Power, through SMEC, SPDC and SPPC, in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA.

PSALM/NPC in turn, pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities at the end of the terms of the ECAs or PPAs. Under the IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028 or at an earlier date due to certain events such as changes in applicable law or non-performance by the IPP of its obligations under the ECA or PPA, as the case may be.

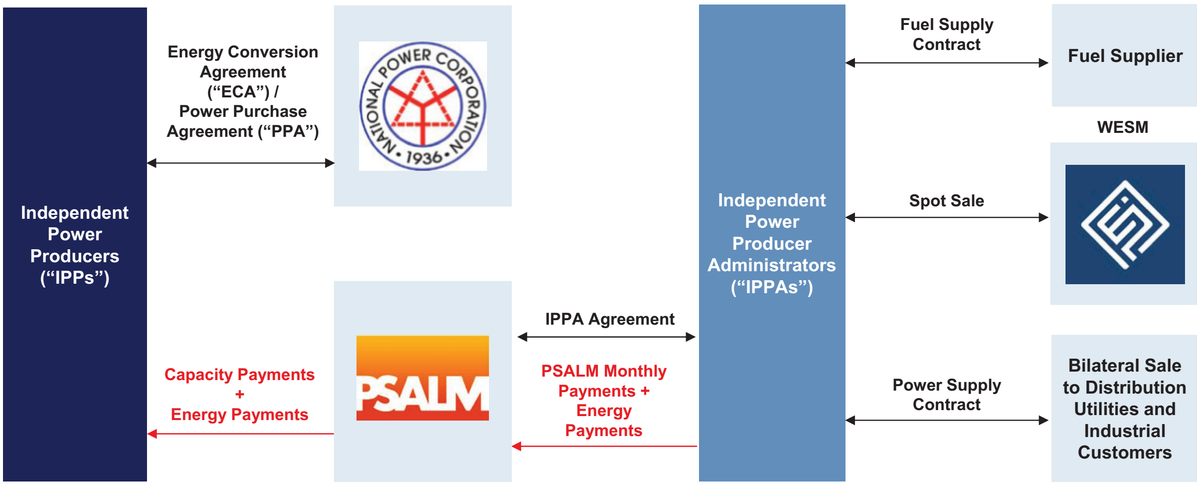
The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPAs are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other forms of financial hedging instruments if desired to manage their position in and exposure to the market.

At the end of the terms of the IPPA Agreements, which normally coincide with the terms of the ECAs and PPAs between NPC and the IPPs, the IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities without additional consideration aside from the IPPA fees paid throughout the term of the IPPA Agreement. Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028, respectively.

The IPPA may exercise the option to acquire the power plants prior to the end of the IPPA Agreement under certain circumstances, such as changes in applicable law or non-performance by the IPP of its obligations under the ECA or the PPA, as the case may be. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the IPPA Agreement.

Set forth below is a general illustration of the IPPA framework.



IPPS	NPC	PSALM	IPPAs
• Construct, operate and maintain plants • Deliver electricity according to the PPA / ECA and dispatch instructions from the IPPA	• IPP counterparty • Become owner and operator of plants if IPP defaults • Plant ownership will be transferred at expiration of ECA	• IPPA counterparty • Extends equivalent relief to IPPA if IPP defaults • Assumed all the assets and liabilities of NPC under the ECA	• Hold rights to sell electricity generated by IPPS • Procure fuel required by IPPs to generate power (only applicable to Sual power plant) • IPPA has the option to acquire the power plant at the end of the IPPA

BATTERY ENERGY STORAGE SYSTEMS AND APPLICATIONS

On August 1, 2019, the DOE issued Department Circular No. DC2019-08-0012 which sets forth the framework for energy storage systems in the electric power industry in the Philippines (the "**ESS Framework**"). An energy storage system ("**ESS**") refers to a facility acting as a load and a generator, which is designed to receive, store and convert such energy to electricity. ESS technologies include BESS, compressed air energy storage, flywheel energy storage, pumped-storage hydropower, and other emerging technologies that may be identified, qualified and approved by the DOE as ESS. The ESS Framework prohibits the system operator from owning ESS, and requires them to consider BESS as an alternative solution in addressing transmission issues such as line congestion, and the use of ESS to defer network upgrades. In addition, the system operator is directed to optimize the addition of BESS into its ancillary services pool and prioritize environmentally friendly sources of energy. This may result in the displacement of less efficient, conventional technologies providing ancillary services, particularly diesel plants. Identified purposes for ESS under the ESS Framework include ancillary services and the management of penetration of renewable energies. See "*Regulation and Environmental Matters—Framework for Energy Storage System in the Electric Power Industry*."

BESS is a type of ESS which utilizes various battery technologies to provide frequency regulation to improve reliability and stability of the transmission grid and capture electricity produced by renewable and non-renewable sources to store for discharge at a later time, among other applications.

BESS has applications in (i) distribution and transmission, (ii) power generation, and (iii) industries and for consumers. Distribution and transmission applications of BESS include ancillary services, improvement of power quality (e.g., voltage support, grid code compliance, among others), smart grids, and micro grid applications. In respect of power generation, BESS applications include renewables integration and energy aggregation or arbitrage. BESS also have industrial applications, such as demand charge management, and power quality management.

The variety in BESS applications is complemented by its modular design and ease of transport. Should requirements in a certain region increase, there is relative ease in increasing capacities as opposed to power plants. Should requirements in a region decrease, BESS owners have the option of transporting the core components of the BESS technologies to other locations where there is a need. Further, BESS technologies have advanced and are now able to achieve improved availability factors of 97%+ and roundtrip efficiency of 85%+. Useful life has likewise reached levels of ten to fifteen years.

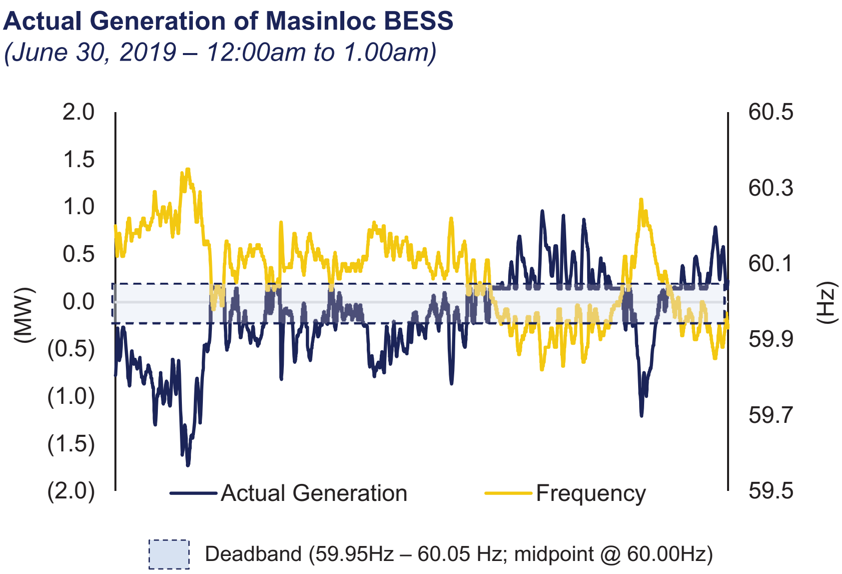
The Company believes that BESS technologies have a significant role moving forward in the long-term power security of the Philippines. Aside from having zero direct emissions in itself, BESS technologies facilitate the entry of renewables by compensating for the intermittent nature of these technologies. In the Power Demand and Supply Outlook 2018-2040 report presented by the DOE in October 2018, the DOE forecasts almost 6,500 MW of flexible capacities, such as batteries, are necessary by 2040. Such increase may result from the forecasted entry of almost 34,800 MW in variable renewable energies. In parallel with this scenario, almost 11,000 MW in baseload capacity is forecasted to be required by the same year. To complement such capacity, the Company believes that frequency regulating reserve requirements (primary and secondary) as well as tertiary reserves, will likewise increase to an estimated 1,900 MW of frequency regulating reserves and 950 MW of tertiary reserves as follows:

	Frequency Regulating Reserves		
Grid	**Primary Reserve**	**Secondary Reserve**	**Tertiary Reserves**
Luzon	647 MW	647 MW	647 MW
Visayas	150 MW	150 MW	150 MW
Mindanao	150 MW	150 MW	150 MW
Total	947 MW	947 MW	947 MW

Note: Estimated reserve requirements for each of Luzon, Visayas and Mindanao are based on the largest single generating unit currently operating in each grid. The Company believes that in the event that there is an outage of the largest single generating unit, then the available frequency regulating reserves should cover such outage.

Distribution and Transmission Applications — Ancillary Services

Frequency regulation is the constant, second-by-second, adjustment of power to maintain system frequency at the nominal value (60 Hz in the Philippines) to ensure grid stability. If power demand exceeds supply, the system frequency falls, which may cause power interruptions. If power plants generate more electricity than current demand, the system frequency increases, which may damage all connected electrical devices. BESS can regulate frequency to acceptable levels by discharging electricity when demand exceeds supply and charging when there is more electricity in the system than demand. BESS provides frequency regulation at rates faster than traditional technologies such as diesel and hydroelectric plants, with charging/discharging rates achieving full dispatch in less than one second. Below is a sample generation output of the Masinloc BESS as compared to frequency movements:



BESS is also notably able to provide more responsive and dynamic frequency regulating reserves than other technologies. BESS facilities instantaneously respond to system frequency changes, which are due to unexpected shutdowns of generating units, sudden drops in generation output of intermittent renewable plants, or demand forecasting errors. This allows the BESS to provide the necessary response to frequency fluctuations, whether through charging or discharging, with little or no lag or deviation from system requirements.

BESS may also be designed to provide other types of ancillary services, such as tertiary reserves, reactive power support, and black start. Tertiary reserves refer to generation capacities from generators or qualified interruptible loads, whether synchronized or dispatchable, which can cover the loss of a generating unit or transmission line, should primary and secondary reserves (frequency regulating reserves) be exhausted. Reactive power support refers to the capability to supply reactive power to, or absorb reactive power from, the grid in order to maintain voltage levels within standards. Black start, on the other hand, refers to active reserves of power and energy within a grid that can be used to energize transmission and distribution lines, and other facilities or provide station power to bring power plants online, and typically require one black start plant per restoration highway.

Generation Applications

BESS can be integrated with renewables as a complementary and compatible technology to intermittent technologies, such as solar and wind, by compensating for sudden drops in generation of these plants due to natural phenomena, or by storing energy from these renewable sources for use during those periods where energy demand from the grid is highest. BESS allows these renewable technologies to achieve load profiles with slow modest swings and which allows it to be more manageable by the grid operator and more capable of providing reliable and consistent power. With sufficient BESS sizing, a renewable plant with BESS facility may even attain baseload generation.

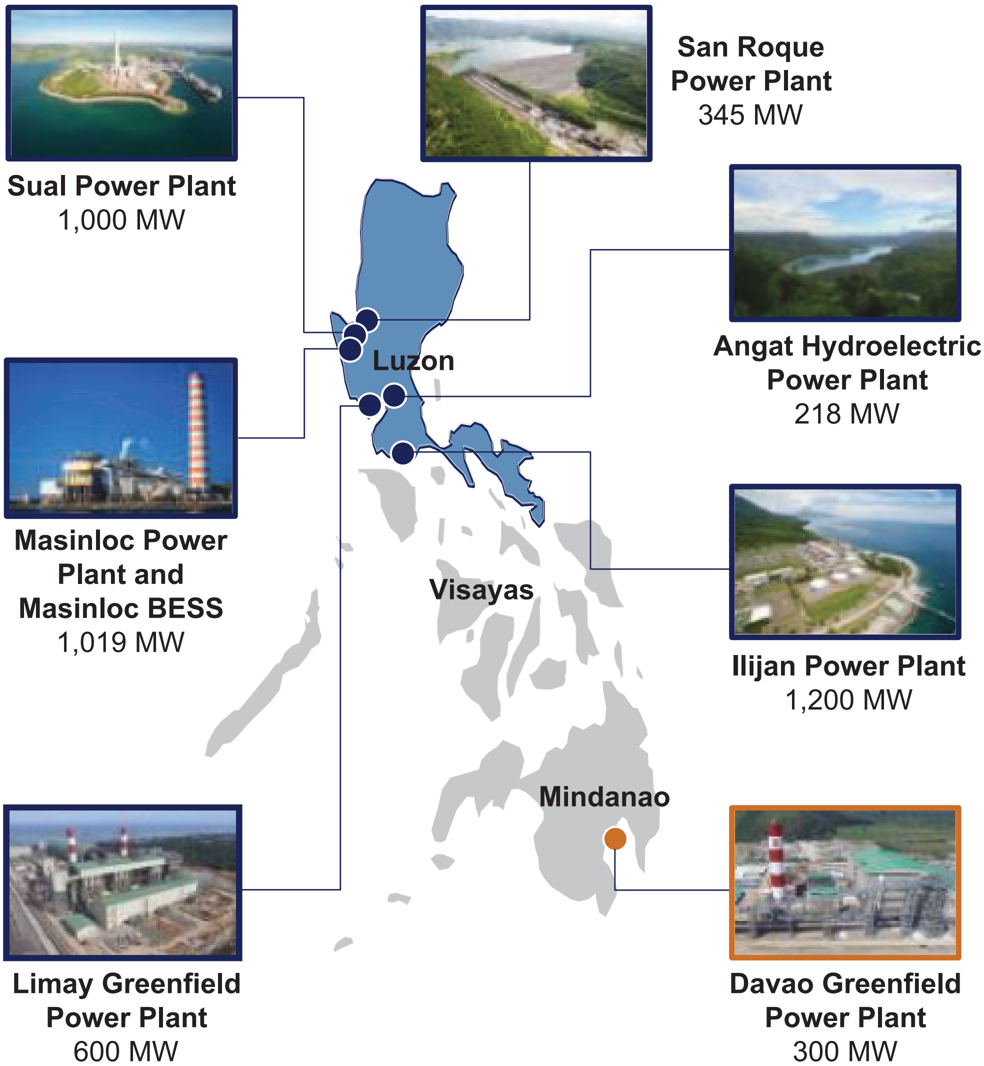
BESS technologies are also capable of energy aggregation, particularly shifting energy usage to take advantage of arbitrage opportunities. In the Philippines, spot prices on average are 50% higher during peak hours, typically the period between 08:00 — 21:00 hours on peak days, compared to other hours. BESS technologies may allow businesses, particularly power providers to charge electricity generated by the plant during hours with low spot prices and sell this instead in periods when prices are higher. This could also be sold via peaking or mid-merit power supply agreements, which are typically priced at a premium versus baseload bilateral contracts.

Such BESS projects could also support a power plant through its peak-shaving capabilities. This could minimize costly ramp-up and ramp-down of generation, and possibly achieve constant generation output over a 24-hour period. This has operational benefits to the plant, including improved efficiency and heat rate, which effectively reduces the amount of fuel needed to produce the same amount of energy, as well as reduced wear and tear of the boiler and other facilities.

BESS technologies are also capable of improving the power quality in an electricity network. BESS technologies can be designed to address a variety of power quality problems including voltage dips, voltage swells, voltage variations, among others. A battery energy storage system can provide both real and reactive power, when needed, to improve voltages, including the voltages of the load-side of the network. These could address voltage issues experienced by consumers who are located far from generation sources. When load-end voltage is low, BESS can provide real power to reduce the power delivered from a remote source. This reduces transmission current, voltage drops, as well as transmission losses. Finally, BESS can also provide reactive power compensation. During high voltage conditions, BESS can operate in its charging mode and absorb excess reactive power to reduce the voltages at the load end.

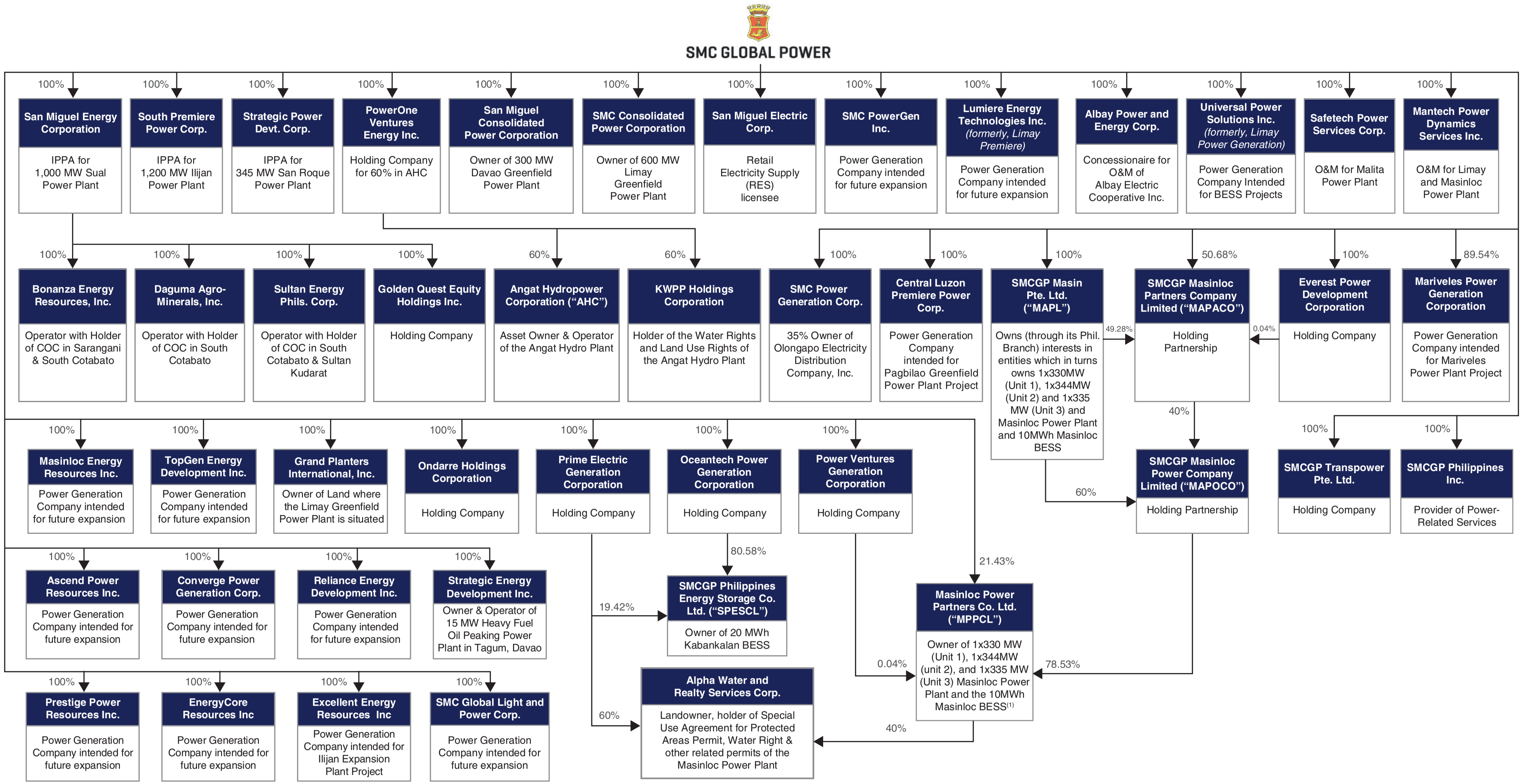
SMC GLOBAL POWER PORTFOLIO

The map below sets out the locations of the major power plants which SMC Global Power owns, operates or for which it acts as IPPA, as well as the newly acquired and greenfield power plants that are partially operational or currently under construction.



CORPORATE STRUCTURE

The chart below provides an overview of the ownership structure of SMC Global Power and its major operating subsidiaries as of July 15, 2020.



(1) *MPPCL has a pending application with the Securities and Exchange Commission for the approval of its Amended Articles of Partnership dated June 24, 2020 reflecting the admission of SMC Global Power Holdings Corp. and the resulting partnership sharing ratio as shown in the chart.*

CORPORATE HISTORY AND MILESTONES

San Miguel Corporation entered the power business in 2009, when it successfully acquired, through privatization auctions by PSALM, the IPPA rights for the Sual Power Plant. In order to consolidate its power generation business, San Miguel Corporation eventually transferred these assets into SMC Global Power. In September 2010, SMC Global Power became a wholly-owned subsidiary of San Miguel Corporation.

The following timeline sets forth key events in the corporate history of SMC Global Power:

January 2008	SMC Global Power is incorporated under the name Global 5000 Investment Inc. (renamed SMC Global Power Holdings Corp. in October 2010)
January 2009	SMC Global Power acquires a 6.13% equity interest in Meralco, which was eventually sold in December 2013.
November 2009	A San Miguel Corporation subsidiary, SMEC, becomes the IPPA for the Sual Power Plant. SMC Global Power acquires a 60% equity interest in SMEC.
January 2010	A San Miguel Corporation subsidiary, SPDC, becomes the IPPA for the San Roque Power Plant. SMEC acquires a 100% equity interest in Bonanza Energy and Daguma Agro, the companies having coal mining rights over approximately 10,000 hectares in Lake Sebu, South Cotabato and Tuanadatu, Maitum, Saranggani Province in Mindanao.
March 2010	SMC Global Power acquires from San Miguel Corporation a 60% equity interest in SPDC, the IPPA for the San Roque Power Plant.
May 2010	SMEC acquires a 100% equity interest in Sultan Energy, with coal mining rights over approximately 7,000 hectares in Lake Sebu, South Cotabato and Bagumbayan, Sultan Kudarat in Mindanao.
June 2010	A San Miguel Corporation subsidiary, SPPC becomes the IPPA for the llijan Power Plant.
September 2010	SMC Global Power becomes a wholly-owned subsidiary of San Miguel Corporation, and acquired from San Miguel Corporation, among others: • a 100% equity interest in SPPC, the company that is the IPPA for the Ilijan Power Plant; and • the remaining 40% equity interests in SMEC and SPDC.
January 2013	Execution of EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.

August 2011	San Miguel Corporation transfers to SMC Global Power its 100% equity interest in SMELC. SMELC holds a RES license from the ERC.
July 2013	Groundbreaking of the 2 x 150 MW Davao Greenfield Power Plant.
September 2013	SMC Global Power is awarded as the winning concessionaire for the rehabilitation, operations and maintenance of ALECO.
	SMC Global Power, through SPI (a wholly owned subsidiary), acquires the 140 MW Limay Cogeneration Plant from Petron Corporation.
	SMC Global Power agreed to sell its 6.13% interest in Meralco. The sale was completed in March 2014.
October 2013	Groundbreaking of the 4 x 150 MW Limay Greenfield Power Plant.
February 2014	Start of APEC's concession of ALECO's distribution franchise.
November 2014	SMC Global Power acquired 60% of AHC, the owner and operator of the AHEPP.
July 2015	Groundbreaking of the AHEPP rehabilitation.
August 2016	SCPC was granted a RES license by the ERC.
December 2016	SMC Global Power, through SPI, sold the 140 MW Limay Cogeneration Plant back to Petron Corporation.
May 2017	Commercial Operations of Unit 1 of the Limay Greenfield Power Plant.
July 2017	Commercial Operations of Unit 1 of the Davao Greenfield Power Plant.
September 2017	Commercial Operations of Unit 2 of the Limay Greenfield Power Plant.
February 2018	Commercial Operations of Unit 2 of the Davao Greenfield Power Plant.
March 2018	Commercial Operations of Unit 3 of the Limay Greenfield Power Plant.
	Acquisition of the Masinloc Power Plant and Masinloc BESS from The AES Corporation and Electricity Generating Public Company Limited.
April 2018	Completed Masinloc Power Plant Unit 2 retrofit and performance tests.

August 2018	Angat Dam & Dykes Strengthening Project completed.
July 2019	Commercial Operations of Unit 4 of the Limay Greenfield Power Plant.
November 2019	Commenced construction and installation of key components of Kabankalan BESS
March 2020	Completed construction and installation of the Kabankalan BESS
September 2020	Executed a binding term sheet covering the TUA of SPPC and EERI with the planned Ilijan LNG Terminal
	Commercial Operations of Unit 3 of the Masinloc Power Plant

IPPA POWER PLANTS

The table below summarizes information regarding the power plants whose generation capacity is managed and sold by SMC Global Power, through its subsidiaries, under IPPA rights.

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Subsidiary	SMEC	SPDC	SPPC
IPPA Acquisition Date	11/2009	3/2010	9/2010
Plant Commercial Operation Date	1999	2003	2002
Ownership	Marubeni Corporation, Tokyo Electric Power Corporation(1)	Marubeni Corporation, Kansai Electric Company Ltd.(2)	Korea Electric Power, Corporation, Mitsubishi Corporation, TeaM Energy(3)
Installed Capacity (MW)	2 x 647	3 x 137	2 x 635.5
Net Contracted Capacity (MW)	1,000(4)	345(5)	1,200
Fuel	Coal	Hydroelectric	Natural Gas
Fuel Supply	PT Trubaindo Coal Mining, PT Kaltim Prima Coal, Vitol, Galaxy Energy and Resources	N/A	Camago-Malampaya Gas Fields (through NPC/PSALM)
Revenue Mix (as of June 30, 2020)	97% bilateral contract(6)	23% WESM; 77% replacement power contracts	95% bilateral contract(7)
Net Capacity Factor (%)			
December 31, 2017	61%	23%	77%
December 31, 2018	70%	34%	74%
December 31, 2019	77%	26%	77%
June 30, 2020	72%	17%	72%
Availability Factor (%)			
December 31, 2017	71%	97%	94%
December 31, 2018	85%	100%	93%
December 31, 2019	88%	94%	92%
June 30, 2020	96%	100%	100%

	Plant Name		
	Sual	San Roque	Ilijan
Offtakers	Meralco, ECs, DUs, DCCs, Third-Party WESM[8]	Intercompany, WESM	Meralco, WESM
IPPA Expiry / Asset Transfer Date . . .	October 2024	April 2028	June 2022

Notes:

(1) *Through TeaM Sual Corporation ("**TeaM Energy**").*

(2) *Through San Roque Power Corporation.*

(3) *Through KEPCO Ilijan Corporation ("**KEILCO**").*

(4) *SMEC is entitled to dispatch up to 1,000 MW, which is the net contracted capacity of the Sual Power Plant. The owner of the plant has the right to generate power in excess of the dispatch instructions of SMEC and sell such excess generation.*

(5) *SPDC expects the San Roque Power Plant to generate power at levels below its contracted capacity due to water levels in the reservoir and downstream irrigation requirements.*

(6) *Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement, 330MW of which will expire by end of 2019, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs. The Sual Power Plant was recently awarded 330MW power supply contracts for 10 years pursuant to a CSP by Meralco in September 2019.*

(7) *The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement up to 2019. Pursuant to a CSP by Meralco in September 2019, the Ilijan Power Plant was awarded a total of 960 MW power supply contracts, of which 670 MW is contracted for 10 years and 290 MW is contracted for five years.*

(8) *ECs: Electric Cooperatives; DUs: Distribution Utilities; DCCs: Directly Connected Customers; and CCs: Contestable Customers.*

POWER GENERATION FACILITIES

Sual Power Plant

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999. It is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer ("**BOT**") scheme that expires on October 24, 2024. In 2007, TeaM Energy, a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

On September 1, 2009, SMEC, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the capacity of the Sual Power Plant in accordance with the provisions of the Sual IPPA Agreement.

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement. TeaM (Philippines) Energy Corporation, an affiliate of TeaM Energy, is allowed to sell the remaining balance of 200 MW. Accordingly, for purposes of this Offering Circular, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC.

IPPA Fees

SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month set out in the Sual IPPA Agreement. The specific amount of the fixed monthly payments under the Sual IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month in which a unit of the Sual Power Plant is unable to produce power for at least three non-delivering days, these agreed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which a unit is unable to produce power for reasons specified in the Sual IPPA Agreement, including planned and unplanned outages arising from causes not attributable to SMEC.

In addition, SMEC must pay monthly energy fees that are periodically adjusted for inflation and that consist of (i) a fixed base energy rate for power actually delivered by the Sual Power Plant comprising both a U.S. dollar and Peso component plus (ii) a variable energy rate for power actually delivered by the Sual Power Plant, in U.S. dollars only, that takes into account the cost and efficiency of fuel supplied to the Sual Power Plant as well as the efficiency (unit heat rate) of the Sual Power Plant, which is measured on an annual basis.

Other Provisions

Offtake agreements with certain customers were also assigned to SMEC by NPC/PSALM. SMEC is required to perform the obligations of NPC under the NPC-assigned offtake agreements, including the obligation to procure power at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power. SMEC is also required to maintain a U.S.$58 million performance bond in favor of PSALM. PSALM remains responsible to TeaM Energy for the payment obligations of NPC under the Sual ECA.

While SMEC is granted the right to coordinate with TeaM Energy, on behalf of NPC, on matters relating to management of the generation capacity of the Sual Power Plant, SMEC cannot directly enforce the Sual ECA against TeaM Energy or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Sual IPPA Agreement arising from the breach by TeaM Energy of its Sual ECA obligations must be claimed by SMEC against PSALM through an equivalent relief claim ("**ER Claim**"). PSALM will then include the ER Claim in its claims against TeaM Energy (the "**PSALM ER Claim**"). The Sual IPPA Agreement does not permit set-off of claims, and SMEC is only entitled to payment of its ER Claim after PSALM has received payment from TeaM Energy of its corresponding PSALM ER Claim.

Under the Sual IPPA Agreement, SMEC has the option to acquire the Sual Power Plant in October 2024 without any additional payment by SMEC. SMEC may exercise the option to acquire the Sual Power Plant prior to October 2024 under certain circumstances, such as changes in applicable law or non-performance by TeaM Energy of its obligations under the Sual ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Sual IPPA Agreement.

The Sual IPPA Agreement may be terminated by either SMEC or PSALM due to certain force majeure events. In case of such termination, SMEC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SMEC up to the date of termination less the aggregate capital recovery fees, fixed operating and maintenance fees, infrastructure fees and service fees paid or payable by PSALM up to the termination date of the Sual IPPA Agreement.

Power Offtakers

The capacity of the Sual Power Plant is contracted to (i) Meralco (DU) under a long-term offtake agreement expiring in December 2029, (ii) Meralco (RES) under a long-term offtake agreement expiring in 2024, subject to extension upon mutual agreement by the parties, (iii) various distribution utilities, electric cooperatives, directly connected customers and third-party RES under existing PSCs. In September 2019, Meralco conducted a CSP for its power supply, in accordance with the DOE CSP Policy. The Sual Power Plant was awarded a contract to supply 330 MW for a period of 10 years.

For energy-based contracts entered into by SMEC directly with offtakers on a bilateral basis, pricing is based on a reasonable return over the cost structure of SMEC.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel and variable operating and maintenance expense.

Operations Review

The table below is a summary of operating statistics of the Sual Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
Actual Energy Generated (GWh)	5,333	6,133	6,780	3,861	3,158
Electricity sold (GWh):	8,388	8,416	9,374	5,007	4,690
of which: bilateral offtake agreements	7,850	7,725	9,084	4,759	4,441
of which: WESM sales	538	691	290	248	249
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	4,940	5,159	4,401	4,432	4,312
for electricity sold on WESM	2,213	2,591	3,520	3,713	1,990
Net Capacity Factor (%)	61	70	77	88	72
Availability Factor (%)	71	85	88	96	96
Reliability Factor (%)	74	98	94	96	98
Average Net Dependable Capacity (MW)	830	956	999	1,000	999
Average Net Heat Rate (Kcal/KWh)	2,448	2,472	2,463	2,479	2,508

Fuel Supply

The table below sets forth certain information regarding the supply of coal to the Sual Power Plant as of the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
Metric tons (thousands)	2,086.1	2,476.4	2,703.2	1,548.9	1,274.2
Average calorific value (kcal/kg)	6,200.9	6,183.1	6,188.1	6,135.2	6,230.7
(in millions ₱)	10,562.3	15,131.6	14,064.8	8,960.0	5,221.1
Average price per metric ton (₱)	5,063.1	6,110.3	5,196.4	5,786.0	4,097.6

SMEC has an existing coal supply agreement with PT Kaltim Prima Coal ("**KPC**"), which will ensure a steady supply of coal for SMEC. For 2018, KPC supplied 11 panamax shipments. KPC is expected to supply 15 panamax shipments for 2019 and 12 panamax shipments each for 2020 and 2021. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. For the six months ended June 30, 2020, KPC supplied 6 panamax shipments to SMEC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy, the successor-in-interest of CEPA Pangasinan Electric Limited. Under the Sual ECA, TeaM Energy is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

The maintenance plan for the Sual Power Plant is agreed upon annually between SMEC, NPC, PSALM, NGCP and TeaM Energy. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage. Planned outages for preventive maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SMEC and recommendations of the plant manufacturer. TeaM Energy is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. TeaM Energy performs periodic preventive maintenance activities on the generating units of the Sual Power Plant during the course of the operations of the plant. The Sual ECA requires TeaM Energy to conduct an annual test to check the capacity and heat rate of the generating units of the Sual Power Plant, if requested by SMEC.

Each of the generating units of the Sual Power Plant historically has been, and is expected to continue to be, shut down for routine preventive maintenance for approximately 30 days per calendar year. SMEC also expects that TeaM Energy will shut down these units for more significant preventive maintenance and repair work for a total of approximately 60 days in every fifth calendar year.

The table below sets forth actual planned outages of the Sual Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Unit 1	27 days	57 days	29 days	None	2 days
Unit 2	None	42 days	28 days	1 day	10 days

In 2017, Unit 1 underwent 27 days of planned preventive maintenance outage.

In 2018, Unit 1 was shut down for 55 days for the annual preventive maintenance outage. Unit 2 was shut down for 22 days for the replacement of the main transformer and 17 days for the annual maintenance outage.

In 2019, Unit 1 and Unit 2 were shut down for 29 days and 27 days, respectively primarily due to the annual preventive maintenance outage.

In the first six months of 2020, Unit 1 was shut down for 2 days for preventive maintenance outage while Unit 2 was shut down for 10 days primarily due to tube leak repair.

The table below sets forth unplanned outages of the Sual Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Unit 1	33 days	5 days	18 days	6 days	9 days
Unit 2	158 days	8 days	16 days	6 days	None

In 2017, 33 days forced outages in Unit 1 were mostly due to condenser tube leaks, water wall tube leaks and boiler tube leaks on panel area while 158 days forced outages in Unit 2 in the same year were due to main transformer failure for 150 days from June 14 to November 10 and condenser tube leaks and boiler tube leaks for eight days.

In 2018, Unit 2 was shut down for eight days mainly due to power tripping attributable to the activation of generator differential protection and burnt power supply interface board.

In 2019, Unit 1 was shut down for 18 days mainly due to repair of boiler water leak and condenser tube leaks while Unit 2 was shut down for 16 days primarily due to boiler tube leaks.

In the first six months of 2020, Unit 1 was shut down for nine days mainly due to boiler and condenser tube leaks.

Power Transmission

Power from the Sual Power Plant is transmitted through a 25 km 230 KV transmission line from the Sual Power Plant switchyard to the Kadampat Substation located at Labrador, Pangasinan. The transmission line is owned by the TransCo and operated and maintained by its concessionaire, NGCP.

Ilijan Power Plant

Background

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEILCO pursuant to a 20-year ECA with NPC ("**Ilijan ECA**") under a BOT scheme that expires on June 4, 2022. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.

NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with the Ilijan IPPA Agreement.

Ilijan IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant. Accordingly, for purposes of this Offering Circular, the contracted capacity of the Ilijan Power Plant is referred to as 1,200 MW.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

IPPA Fees

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC must pay monthly generation payments comprising a "must pay" amount for electricity sold up to a given volume (the "**Must Pay Volume**") and a variable amount for electricity sold in excess of the Must Pay Volume.

Other Provisions

SPPC is required to maintain a U.S.$60 million performance bond in favor of PSALM. PSALM remains responsible to KEILCO for the payment obligations of NPC under the Ilijan ECA.

While SPPC is granted the right to coordinate with KEILCO, on behalf of NPC, on matters relating to management of the generation capacity of the Ilijan Power Plant, SPPC cannot directly enforce the Ilijan ECA against KEILCO or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Ilijan IPPA Agreement arising from the breach of KEILCO of its obligations under the Ilijan ECA must be claimed by SPPC against PSALM through the ER Claim and the PSALM ER Claim mechanism.

Under the Ilijan IPPA Agreement, SPPC has the option to acquire the Ilijan Power Plant in June 2022 subject to certain conditions under the Ilijan IPPA Agreement but without any additional payment by SPPC. SPPC may exercise the option to acquire the Ilijan Power Plant prior to June 2022 under certain circumstances, such as changes in applicable law or non-performance by KEILCO of its obligations under the Ilijan ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Ilijan IPPA Agreement.

The Ilijan IPPA Agreement may be terminated by either SPPC or PSALM due to certain force majeure events. In case of such termination, SPPC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPPC up to the date of termination less the aggregate capital recovery fees and fixed operating and maintenance fee paid or payable by NPC/PSALM to KEILCO from the effective date of the Ilijan IPPA Agreement up to the termination date of the Ilijan IPPA Agreement.

Power Offtakers

Majority of the capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreements, Meralco conducted a CSP for its power supply, in accordance with the DOE CSP Policy. The Ilijan Power Plant was awarded two offtake contracts to supply an aggregate of 960 MW, of which 670 MW is contracted for 10 years while the remaining 290 MW is contracted for five years.

In the years ended December 31, 2017, 2018 and 2019, and the six months ended June 30, 2019 and 2020, 92%, 86%, 87%, 89% and 92%, respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, 8%, 14%, 13%, 11% and 8% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

Operations Review

The table below is a summary of operating statistics of the Ilijan Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
Actual Energy Generated (GWh)	8,143	7,768	8,065	4,513	3,782
Electricity sold (GWh):	8,308	7,888	8,133	4,542	3,816
of which: bilateral offtake agreements	7,606	6,745	7,114	4,055	3,500
of which: WESM sales	702	1,143	1,019	487	315
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	4,154	4,741	4,760	4,901	4,462
for electricity sold on WESM	3,070	3,426	4,324	4,954	2,456
Net Capacity Factor (%)	77	74	77	84	72
Availability Factor (%)	94	93	92	99	100
Reliability Factor (%)	99	100	100	100	100
Average Net Dependable Capacity (MW)	1,122	1,119	1,104	1,189	1,192
Average Net Heat Rate (Kilo-Joule/KWh)	6,870	6,926	6,841	6,799	7,030

Fuel Supply

Under the Ilijan IPPA Agreement, NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Pursuant to a fuel supply and management agreement among Shell Exploration B.V., Occidental Philippines, Inc., and NPC, NPC supplies natural gas to the Ilijan Power Plant through a 480-km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-inch diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, governing the output of 1,200 MW guaranteed contracted capacity, baseload operation, and spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

The maintenance plan for the Ilijan Power Plant is agreed upon annually between SPPC, NPC, PSALM, NGCP and KEILCO. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for preventive maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SPPC and recommendations of the plant manufacturer. KEILCO is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. KEILCO performs periodic preventive maintenance activities on the generating units of the Ilijan Power Plant during the course of the operations of the plant. The Ilijan ECA requires KEILCO to conduct an annual test to check the capacity of the generating units of the Ilijan Power Plant.

Each of the generating units of the Ilijan Power Plant historically has been, and is expected to continue to be, shut down for routine preventive maintenance for approximately 26 days per calendar year. SPPC also expects that KEILCO will shut down these units for more significant preventive maintenance and repair work for a total of 35 to 43 days in every fifth calendar year.

The table below sets forth actual planned outages of the Ilijan Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Block 1	18 days	26 days	17 days	2 days	None
Block 2	9 days	21 days	39 days	None	None

In 2017, Blocks 1 and 2 was shut down for 18 days and 9 days, respectively, due to Malampaya gas restriction from January 28, 2017 to February 16, 2017.

In 2018, Block 1 was shut down for a total of 26 days mainly due to turbine inspection and repair of HRSG casing leak while Block 2 underwent combustor inspection for 16 days and an additional day due to HRSG casing leak.

In 2019, Block 1 underwent 17 days of shut down primarily due to combustor inspection while Block 2 was shut down for 39 days mainly due to major inspection.

The table below sets forth unplanned outages of the Ilijan Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Block 1	2 days	1 day	1 day	1 day	1 day
Block 2	10 days	None	None	None	1 day

In 2017, there were no significant outages for Block 1 while Block 2 experienced a 10-day forced outage due to debris filter inspection.

In 2018, there was a one-day outage in Block 1 due to power tripping attributable to the fluctuation of combustor pressure and activation of gas turbine overspeed trip signal.

In 2019, Block 1 experienced a one-day outage due to combustor pressure fluctuation.

In the first six months of 2020, Block 1 and 2 both experienced a one-day outage due to power tripping attributable to fluctuation of combustor pressure.

Power Transmission

Power from the Ilijan Power Plant is transmitted through a 500 KV transmission line that connects to the Luzon Grid through the Ilijan-Dasmarinas line and Ilijan-Tayabas line. The transmission line is owned by TransCo, and operated and maintained by NGCP.

San Roque Power Plant

Background

The 345 MW San Roque Power Plant in San Manuel, Pangasinan, commenced operations on May 1, 2003, and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited (the "**Consortium**") pursuant to a power purchase agreement with NPC under a BOT scheme (the "**San Roque PPA**").

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, irrigates approximately 34,450 hectares of agricultural land, stores water that would otherwise flood the Pangasinan plains, and improves water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with the IPPA Agreement with PSALM (the "**San Roque IPPA Agreement**"). PSALM remains responsible under the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

Power Plant Capacity

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation ("**SRPC**").

While the contracted capacity of SPDC is 345 MW, it may generate up to 435 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Offering Circular, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SPDC is responsible for contracting with NGCP to wheel power from the delivery point.

Minimum Run Rate

The San Roque PPA requires NPC to take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2017 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to take-or-pay for under the San Roque PPA.

IPPA Fees

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per KWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

Other Provisions

The San Roque IPPA Agreement requires SPDC to maintain a performance bond in favor of PSALM equivalent to U.S.$20 million. Under the San Roque IPPA Agreement, SPDC has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in applicable law or non-performance by SRPC under the San Roque PPA.

While SPDC is granted the right to coordinate with SRPC, on behalf of NPC, on matters relating to management of the generation capacity of the San Roque Power Plant, SPDC cannot directly enforce the San Roque PPA against SRPC or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the San Roque IPPA Agreement arising from the breach of SRPC of its San Roque PPA obligations must be claimed by SPDC against PSALM through the ER Claim and the PSALM ER Claim mechanism. Under the San Roque IPPA Agreement, SPDC has the option to acquire the San Roque Power Plant in May 2028 without any additional payment by SPDC. SPDC may exercise the option to acquire the San Roque Power Plant prior to May 2028 under certain circumstances, such as changes in applicable law or non-performance by SRPC of its obligations under the San Roque PPA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the San Roque IPPA Agreement.

The San Roque IPPA Agreement may be terminated by either SPDC or PSALM due to certain force majeure events. In case of such termination, SPDC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capital recovery, operating and watershed management fees paid or payable by NPC/PSALM to SRPC from the effective date of the San Roque IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

Operations Review

The table below is a summary of operating statistics of the San Roque Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
Actual Energy Generated (GWh)	692	1,017	793	306	255
Electricity sold (GWh):	1,026	1,342	1,187	530	323
of which: bilateral offtake agreements	827	898	935	516	236
of which: WESM sales	199	444	252	14	88
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreement	5,844	6,340	6,759	7,497	4,276
for electricity sold on WESM	4,395	2,950	3,429	9,666	3,509
Net Capacity Factor (%)	23	34	26	20	17
Availability Factor (%)	97	100	94	88	100
Reliability Factor (%)	100	100	99	99	100
Average Net Dependable Capacity (MW)	374	355	358	343	399

Water Rights

The generated output energy of the San Roque Power Plant is limited by the "Irrigation Diversion Requirements" set by the NIA of the Philippines. Water allocation is usually dictated by a rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires.

In general, the rule curve dictates the following:

- *Water Level Above the Upper Rule Curve* — All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.

- *Between the Upper and Lower Rule Curves* — All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation.

- *Water Level Below the Lower Rule Curve* — The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. If necessary, no further water release for power generation is allowed.

Generally, the output energy of San Roque Power Plant is high during planting seasons which cover the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant, and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SPDC, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the NWRB.

Operations and Maintenance

SRPC, the successor-in-interest of the Consortium, is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni Corporation and Kansai Electric Power Company Ltd. Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SPDC, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular preventive maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the San Roque PPA.

The maintenance plan for the San Roque Power Plant is agreed upon annually between SPDC, NPC, PSALM, NGCP and SRPC. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for preventive maintenance of the generating units are scheduled in such a way that only one unit is shut down at any given time. The power tunnel that delivers water from the reservoir to the generating units also undergoes routine annual preventive maintenance inspections, during which all units are shut down. The maintenance plan is established with consideration given to the dispatch requirements of SPDC and recommendations of the plant manufacturer. SRPC is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. SRPC performs periodic preventive maintenance activities on the generating units of the San Roque Power Plant during the course of the operation of the plant. The San Roque PPA requires SRPC to conduct an annual test to check the capacity of the generating units of the San Roque Power Plant. As of the date of this Offering Circular, the generating units of the San Roque Power Plant have attained and maintained the required contracted capacity specified in the San Roque PPA.

Each of the generating units of the San Roque Power Plant historically has been, and is expected to continue to be, shut down for routine preventive maintenance for approximately 15 days per calendar year sometime between April to June of each year, when water levels at the reservoir are low. Since 2010, during periods when a generating unit is shut down for routine preventive maintenance, the San Roque Power Plant has historically been, and is expected to continue to be, able to generate power at the applicable minimum run rate from the other generating units. The San Roque Power Plant does not have a regular schedule for significant preventive maintenance and repair work.

The power tunnel that delivers water from the reservoir to the generating units also undergoes routine preventive maintenance inspections for approximately 15 days per calendar year. Power tunnel inspections historically have been, and are expected to continue to be, conducted between April to June of each year, after the end of the irrigation period and when water levels at the reservoir are low.

The table below sets forth the actual planned outages of the power tunnel for the San Roque Power Plant for the periods indicated.

For the year ended December 31,			For the six months ended June 30,	
2017	2018	2019	2019	2020
11 days (May 27 to June 6)	4 days (May 26 to June 4)	7 days (June 8 to June 14)	7 days (June 8 to June 14)	None

In 2017, 11 days planned outages of the San Roque Power Plant were due to power tunnel, inspection and annual preventive maintenance of San Roque-San Manuel 230 KV lines.

In 2018, the San Roque Power Plant was shut down for 10 days due to switchyard maintenance activities in accordance with the Grid Operating and Management Program.

In 2019, seven days planned outages of the San Roque Power Plant were due to power tunnel and switchyard inspection.

Power Transmission

Power from the San Roque Power Plant is transmitted through a nine km 230 KV transmission line from the San Roque Power Plant switchyard to the San Manuel substation located in Pangasinan. The transmission line is owned by TransCo and operated and maintained by NGCP.

Angat Hydroelectric Power Plant

The AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. The AHEPP was privatized through an asset purchase agreement between PSALM and Korea Water Resource Corporation ("**K-water**"). K-water assigned its rights in favor of AHC, a joint venture between K-water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprised of four main units of 50 MW capacity each and three auxiliary units of 6 MW capacity each. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The Auxiliary Unit 3 was manufactured by Allis-Chalmer and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which are the most commonly used model in hydroelectric power generation. In August 2018, AHC completed the rehabilitation of the Angat Dam and Dykes in accordance with the Operations and Maintenance Agreement with PSALM and NPC.

Fuel Supply and Water Rights

The AHEPP utilizes water resources of the Angat reservoir. The Angat reservoir is 35 km long and 3 km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following two purposes: (i) water discharged through Auxiliary Units and through the spillway that flows to the Ipo reservoir is used to supply 97% of the residential drinking water of Metro Manila; and (ii) water discharged through Main Units that flows downstream to the Bustos reservoir is utilized for irrigation purposes.

Water rights surrounding the AHEPP are co-owned and governed by the following entities, with its respective purposes, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by NWRB as implemented by a Memorandum of Agreement on the Angat Water Protocol between MWSS, NIA, AHC, PSALM, NPC and NWRB: (i) MWSS, for domestic water supply to Metro Manila; (ii) provincial government of Bulacan, for water supply in the Bulacan Province; (iii) NIA, for irrigation diversion requirements; and (iv) AHC (through a lease contract with KWPP), for power generation.

Power Offtakers

AHC sells majority of its generated capacity to the WESM at the prevalent spot price. The Main Units are operated as peaking units. The strategy for the Main Units is to allocate daily water release during peak hours. Auxiliary Units are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation. AHC periodically enters into short-term power supply contracts for the capacity of its auxiliary units, including replacement contracts with the subsidiaries of the Companies, and continues to explore options to contract this capacity.

Operations Review

The table below is a summary of operating statistics of the AHEPP for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Net Capacity Factor (%)	27	22	14	20	11
Availability Factor (%)	87	76	73	82	74
Reliability Factor (%)	95	98	81	98	100
Average Net Dependable Capacity (MW)	199	165	124	139	152

Operations and Maintenance

AHC undertakes the operation and maintenance of AHEPP. The operations and maintenance team consist of the local technical team who have been operating the AHEPP supported by technical experts seconded from K-water.

AHC has entered into technical services agreements with each of K-water and PVEI to ensure that the appropriate level of technical and management support will be provided to support the operation and maintenance requirements of AHC.

Limay Greenfield Power Plant

Background

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW CFB coal-fired power plant located in Limay, Bataan, which commenced construction in October 2013. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant achieved commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively. The engineering, procurement, and construction contractors of the Limay Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. In June 2017, SCPC acquired all of the rights and obligations on the completion of Units 3 and 4 of the Limay Greenfield Power Plant from another wholly-owned subsidiary, Limay Premiere Power Corp. Mantech Power Dynamics Services Inc., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Limay Greenfield Power Plant are fully contracted to various distribution utilities, electric cooperatives, directly connected and contestable customers, including facilities of SMC subsidiaries, under long-term offtake agreements mostly expiring in 10 years from effective date, subject to extension upon mutual agreement between the parties. Units 3 and 4 of the Limay Greenfield Power Plant are also contracted with distribution utilities, directly connected customers and contestable customers. For the six months ended June 30, 2020, 99% of revenues were from bilateral contracts while the remaining 1% was attributable to revenue from WESM SCPC was granted a RES license on August 24, 2016, which is valid until August 24, 2021. The RES license gave SCPC the ability to directly contract with contestable customers.

Fuel Supply

The table below sets forth certain information regarding the supply of coal to the Limay Greenfield Power Plant for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,	
	2018	2019	2019	2020
Metric tons (thousands)	1,686	2,328	1,033	956
Average calorific value (kcal/kg)	4,528	4,367	4,441	4,264
(in millions ₱)	5,978	6,008	2,937	2,272
Average price per metric ton (₱)	3,545	2,581	2,843	2,376

SCPC has executed two long-term coal supply agreements with Bayan Resources TBK ("**Bayan**") and KPC, with terms of until 2022 and five years from effectivity date, respectively. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract, with an optional additional quantity of three shipments per year. KPC will supply four panamax shipments per year, with an option on the part of SCPC to add four more shipments per year upon prior notice. SCPC has also executed another long-term supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/-

10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SCPC has also executed spot coal supply contracts with other suppliers.

Operations Review

The table below is a summary of operating statistics of the Limay Greenfield Power Plant for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,	
	2018	2019	2019	2020
Actual Energy Generated (GWh)	2,743	3,794	1,421	1,457
Electricity sold (GWh):	2,624	4,212	1,807	1,981
of which: bilateral offtake agreements	2,370	4,162	1,782	1,962
of which: WESM sales	254	50	25	19
Average realized electricity prices(₱/MWh):				
for electricity sold under bilateral offtake agreement	4,863	4,696	4,782	4,700
for electricity sold on WESM	3,819	5,003	6,404	2,837
Net Capacity Factor (%)	72	81	73	62
Availability Factor (%)	86	84	77	69
Reliability Factor (%)	96	89	84	83
Average Net Dependable Capacity (MW)	369	536	536	536
Average Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**")	2,725	2,686	2,676	2,798

The table below sets forth unplanned outages of the Limay Greenfield Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Unit 1	41 days	20 days	56 days	52 days	26 days
Unit 2	1 day	—	47 days	37 days	13 days
Unit 3	—	—	19 days	2 days	56 days
Unit 4	—	—	26 days	15 days	7 days

In 2017, Unit 1 experienced 41 days of shutdown primarily due to condenser tube leak, suspected damaged grid nozzles and boiler tube leak while Unit 2 experienced one day of shutdown due to replacement of damaged gland steam exhauster.

In 2018, Unit 1 was shut down for 20 days mainly due to replacement of turbine and boiler tube leaks.

In 2019, Unit 1 was shut down for 56 days primarily due to damaged debris filter, outside management control and boiler tube leak. Unit 2 was shut down for 47 days mainly due to boiler tube leaks and outside management control. Units 3 and 4 were shut down for 19 days and 26 days, respectively, primarily due to boiler tube leaks.

In the first six months of 2020, Unit 1 experienced shut down for 26 days mainly due to extended preventive maintenance shutdown and repair of coal feeder. Units 2, 3 and 4 were shut down for 13 days, 56 days and 7 days, respectively, primarily due to extended annual preventive maintenance shutdown.

Davao Greenfield Power Plant

Background

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCPC, is a 2 x 150 MW CFB coal-fired power plant located in Malita, Davao Occidental, which commenced construction in September 2013. Units 1 and 2 of the Davao Greenfield Power Plant achieved commercial operations in July 2017 and February 2018, respectively.

The engineering, procurement, and construction contractors of the Davao Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. Safetech Power Services Corp., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Davao Greenfield Power Plant are substantially contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in 10 years from effective date, subject to extension upon mutual agreement between the parties. For the six months ended June 30, 2020, all revenues were from bilateral contracts.

Fuel Supply

The table below sets forth certain information regarding the supply of coal to the Davao Greenfield Power Plant for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,	
	2018	2019	2019	2020
Metric tons (thousands)	403	1,159	564	592
Average calorific value (kcal/kg)	4,556	4,437	4,466	4,389
(in millions ₱)	1,401	3,303	1,758	1,599
Average price per metric ton (₱)	3,118	2,850	3,010	2,702

SMCPC executed a long-term coal supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SMCPC also has executed spot coal supply contracts with other suppliers.

Operations Review

The table below is a summary of operating statistics of the Davao Greenfield Power Plant for the periods indicated.

	For the year ended December 31,		For the six months ended June 30,	
	2018	2019	2019	2020
Actual Energy Generated (GWh)	1,437	1,896	951	974
Electricity sold (GWh):	1,477	2,174	1,090	1,084
of which: bilateral offtake agreements	1,477	2,174	1,090	1,084
of which: WESM sales	—	—	—	—
Average realized electricity prices(₱/MWh):				
for electricity sold under bilateral offtake agreement	5,301	5,000	5,038	5,212
for electricity sold on WESM	—	—	—	—
Net Capacity Factor (%)	63	82	82	83
Availability Factor (%)	95	93	95	93
Reliability Factor (%)	92	98	97	98
Average Net Dependable Capacity (MW)	264	264	264	264
Average Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**")	2,735	2,649	2,681	2,742

The table below sets forth unplanned outages of the Davao Greenfield Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
Unit 1	—	10 days	6 days	6 days	—
Unit 2	—	3 days	8 days	8 days	7 days

In 2018, Unit 1 was shut down for 10 days primarily due to repair of condenser tube leak while Unit 2 was shut down for 3 days due to tripping caused by generator AVR trouble during replacement activity.

In 2019, Units 1 and 2 were shut down for 6 days and 8 days, respectively, mainly due to boiler tube leaks.

In the first six months of 2020, Unit 2 was shut down for 7 days primarily due to boiler tube leaks.

Masinloc Power Plant and Masinloc BESS

Background

The Masinloc Power Plant comprises 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plant located in Masinloc, Zambales, and is owned and operated by MPPCL. Units 1 and 2 of the Masinloc Power Plant commenced commercial operations in June 1998 and December 1998, respectively, and were originally developed and owned by NPC. Unit 3, which is a brownfield/expansion project within the Masinloc Power Plant, is currently capable of supplying 100% of its load. It commenced commercial operations on September 26, 2020. In view of the delay in the commercial operations of Unit 3 (originally scheduled for April 2019), Posco has offered the Company a reasonable amount as settlement for liquidated damages, subject to certain conditions, which the Company has accepted. The EPC contractors of Unit 3 of the Masinloc Power Plant are Posco and Ventanas Philippine Construction. MPPCL also owns the Masinloc BESS.

The Masinloc BESS (10 MWh) is a pioneer grid-scale BESS in the Philippines and Southeast Asia and the largest BESS in the Philippines, until commercial operations of the Kabankalan BESS. The EPC Contractor for the Masinloc BESS is Fluence, which has installed 1,125 MW in BESS capacity in 95 projects across 20 countries and is a leading vendor for utility-scale energy storage systems, according to Navigant Research.

The Masinloc Power Plant and Masinloc BESS were acquired by SMC Global Power on March 20, 2018, when SMC Global Power completed the acquisition of 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively.

Power Offtakers

Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and contestable customers. For the six months ended June 30, 2020, 91% of revenues were from bilateral contracts while the remaining 9% was attributable to revenue from WESM. The RES license of MPPCL was renewed on June 27, 2016, and is valid until August 1, 2021. The Masinloc BESS provides regulating reserve ancillary services to the Luzon Grid under an ASPA with NGCP, under a take-or-pay scheme for capacity payments for both charging and discharging capacity, subject to dispatch protocols and guidelines.

Operations Review

The table below is a summary of operating statistics of the Masinloc Power Plant for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017[(1)]	**2018[(1)]**	**2019**	**2019**	**2020**
Actual Energy Generated (GWh)	4,156	4,253	4,264	2,278	1,581
Electricity sold (GWh):	4,156	4,768	5,818	2,963	3,248
of which: bilateral offtake agreements	3,960	3,672	5,450	2,736	2,862
of which: WESM sales	196	1,095	368	227	386
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	5,111	5,773	4,499	4,545	3,946
for electricity sold on WESM	3,160	2,842	4,464	5,707	3,032
Net Capacity Factor (%)	80	73	79	84	59
Availability Factor (%)	91	84	88	91	77
Reliability Factor (%)	94	91	92	93	88
Average Net Dependable Capacity (MW)	590	619	615	616	615
Average Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**")	2,530	2,462	2,482	2,495	2,617

Note:

(1) Data obtained from Masinloc Power Plant records. The Company completed its acquisition of the Masinloc Power Plant in March 2018.

Fuel Supply

The table below sets forth certain information regarding the supply of coal to the Masinloc Power Plant as of the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2017[(1)]	**2018[(1)]**	**2019**	**2019**	**2020**
Metric tons (thousands)	1,807.6	1,693.3	1,987.9	1,030.2	762.9
Average calorific value (kcal/kg)	5,817.6	5,881.0	5,430.3	5,588.9	5,497.5
(in millions ₱)	8,928.8	9,879.0	8,010.9	4,433.2	2,738.7
Average price per metric ton (₱)	4,939.5	5,817.1	4,029.8	4,303.3	3,589.7

Note:

(1) Data obtained from Masinloc Power Plant records. The Company completed its acquisition of the Masinloc Power Plant in March 2018.

MPPCL has coal supply contracts with reputable international companies with durations ranging from six months to three years. All supplies are governed by a five-year master agreement, which terms apply for all contracts to be entered into between MPPCL and a coal supplier.

DISTRIBUTION AND RETAIL SERVICES

Albay Power and Energy Corp.

On October 29, 2013, after an open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO, which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. Under the concession agreement, there is no transfer of the franchise to operate the distribution system and the ownership of the distribution assets remains with ALECO. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power would pay a concession fee consisting of quarterly payments for the operating expenses of residual ALECO, and 50% of the net cash flow if the net cash flow is positive within five years or earlier. SMG Global Power also paid for the severance pay of ALECO employees dismissed as a result of the concession agreement. SMC Global Power established APEC as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC, a wholly-owned subsidiary. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

Retail Electric Supply

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The three RES licenses issued to SMC Global Power, through SMELC, SCPC and MPPCL, have a term of five years each and are valid until August 20, 2021, August 24, 2021 and August 1, 2021, respectively. The RES licenses allow the relevant subsidiary of SMC Global Power to enter into RSCs with contestable customers and expand its customer base. As of June 30, 2020, SMELC, SCPC and MPPCL supply an equivalent of 825 MW to various facilities of San Miguel Corporation subsidiaries and other contestable customers. The Company believes that it is one of the major players in the contestable market, supplying over 162 contestable customers as of June 30, 2020 based on data obtained from the ERC.

COAL INVESTMENTS

Pursuant to its strategy of integrating viable complementary businesses to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Depending on prevailing coal prices and the related logistical costs, SMC Global Power could develop these assets to provide a significant additional source of coal fuel for its power plants, but such assets remain in the preparatory stage of its mining activities, as of June 30, 2020. The Company continues to evaluate the viability of these assets.

The table below sets forth certain information regarding these assets.

Subsidiary	Description of Asset	Mining Site	Coal Operating Contract ("COC")
Bonanza Energy	COC with the DOE covering eight coal blocks with a total area of approximately 8,000 hectares	Lake Sebu South Cotabato and Maitum, Saranggani Province	COC for exploration awarded in May 2005, converted to COC for development and production in December 2009
Daguma Agro	COC with the DOE covering two coal blocks with a total area of approximately 2,000 hectares.	Lake Sebu, South Cotabato	COC for exploration awarded in November 2002; converted to COC for development and production in March 2008
Sultan Energy	COC with the DOE covering seven coal blocks with a total area of 7,000 hectares	Lake Sebu, South Cotabato and Bagumbayan, Sultan Kudarat	COC for exploration awarded in February 2005; converted to COC for development and production in February 2009

Each of the COCs has a term of 10 years from the conversion date of the COC for development and production. The initial 10-year term of each COC may be extended for another 10-year period, and thereafter for a series of three-year periods not to exceed 12 years, in each case subject to agreement between the parties. Sultan Energy has obtained an extension from the DOE up to 2028 while Bonanza Energy has filed a request for a 10-year term extension.

SALES STRATEGY AND CUSTOMERS

SMC Global Power seeks to sell substantially all of the power generated by its portfolio of power plants to offtakers whether in the form of distribution utilities, electric cooperatives or contestable customers. For the six months June 30, 2020, approximately 46% and 45% of consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on publicly available disclosures of Meralco, SMC Global Power believes that it is one of Meralco's largest power suppliers as of June 30, 2020, supplying approximately 22% of Meralco's power purchases. Meralco is the largest distribution utility in the Philippines.

Currently, the capacities of the Ilijan Power Plant and Unit 1 of the Sual Power Plant are subcontracted under long-term offtake agreements with Meralco and its affiliates, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, and industrial customers under existing offtake agreements. These agreements typically include take-or-pay provisions whereby a customer is required to pay for a minimum contracted amount of power, regardless of whether or not the customer takes delivery of the entire amount, with the result that revenue from these offtake agreements is relatively stable for the duration of the agreements.

If the generation output available to the subsidiaries of SMC Global Power from these plants exceeds the amount deliverable under their offtake agreements, such subsidiaries of SMC Global Power offer the excess power for sale through the WESM at the market clearing price. The Company believes that offtake agreements with distribution utilities and electric cooperatives, while subject to approval of the ERC, are relatively better in pricing compared to retail supply contracts with contestable customers. Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and industrial customers.

The power generation capacity of the San Roque Power Plant and the AHEPP at any given time depends on the water levels in the reservoir and downstream irrigation requirements. As such, these plants sell majority of their generated capacity to the WESM at the prevailing spot prices. The San Roque Power Plant and the Main Units of the AHEPP are operated as peaking units. Available water is used to generate power during peak hours when prices are higher.

The Auxiliary Units of AHEPP are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discretion to choose the hour of allocation. AHC is exploring options to contract the capacity of its Auxiliary Units.

The Company plans to contract a substantial portion of the capacity of BESS projects to provide ancillary services to the grid. It can also take advantage of arbitrage opportunities in the WESM, particularly during peak hours when prices may be more than double. BESS projects may also be contracted with other entities such as electric cooperatives or power plants.

In the years ended December 31, 2017, 2018 and 2019 and in the six months ended June 30, 2019 and 2020, approximately 91%, 85%, 93%, 93% and 92% respectively, of consolidated volume of power sold by the Company are to customers pursuant to bilateral offtake agreements. Sales to Meralco accounted for approximately 56%, 44%, 49%, 49% and 46% of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020. Sales through the WESM accounted for approximately 9%, 15%, 7%, 7% and 8% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively.

COMPETITION

SMC Global Power is one of the largest power companies in the Philippines. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid, in each case as of June 30, 2020. Its main competitors are First Gen Corporation and the Aboitiz Group, which holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of NPC-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

CUSTOMERS

SMC Global Power sells power, through power supply agreements, either directly to customers (distribution utilities, electric cooperatives and industrial customers) or through the WESM.

	For the year ended December 31,						
	2017		2018		2019		
Customers	Volume Sold	Revenue	Volume Sold	Revenue	Volume Sold	Revenue	Revenues
	(GWh)	(in millions ₱)	(GWh)	(in millions ₱)	(GWh)	(in millions ₱)	(in U.S.$ millions)
Meralco	9,664	43,404	10,518	54,474	13,816	62,795	1,260.2
WESM	1,520	4,468	3,590	10,860	1,979	8,167	163.9
Total Major Customers	11,184	47,872	14,108	65,334	15,795	70,962	1,424.1
Others(1)	6,043	34,919	9,756	54,769	12,317	64,098	1,286.3
Total Sales	17,227	82,791	23,864	120,103	28,112	135,060	2,710.4

Note:

(1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

	For the six months ended June 30,				
	2019		2020		
Customers	Volume Sold	Revenue	Volume Sold	Revenue	Revenues
	(GWh)	(in millions ₱)	(GWh)	(in millions ₱)	(in U.S.$ millions)
Meralco	7,219	34,328	5,944	24,624	494.2
WESM	1,000	4,919	1,057	2,803	56.2
Total Major Customers	8,219	39,247	7,001	27,427	550.4
Others(1)	6,416	33,264	5,836	29,749	597.0
Total Sales	14,635	72,511	12,837	57,177	1,147.4

Note:

(1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

SAFETY, HEALTH AND ENVIRONMENTAL REGULATION

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("**Clean Air Act**"), the Philippine Clean Water Act of 2004 ("**Clean Water Act**"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, the Department of Labor and Employment Occupational Safety and Health Standard of 1989, as amended, and Republic Act No. 11058 (otherwise known as "An Act Strengthening Compliance with Occupational Safety and Health Standards and Providing Penalties for Violations Therefor"). Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being as well as their physical safety and health. For its BESS sites, the Company is committed to ensuring the safety of its employees and the community and has designed measures such as a fire protection system, with a fire wall, automatic fire shutters, and sprinkler system, and a double wall system composed of the blast wall and fire wall, to add additional layers of safety. The fire wall (Boral) has a 60/60/60 fire resistance level meaning it is able to maintain structural adequacy, integrity, and insulation for at least 60 minutes during fire testing. Its thermal regulation features include louver-type windows and doors and dedicated high-voltage air conditioning units. The prismatic cell design of the BESS with can-type battery enclosures provides additional safety features such as its fuse countermeasure and overcharge safety device while also promoting stability, space-efficiency and flexibility. The BESS also has a disaster resilient design, and is able to withstand 7-9 magnitude earthquakes (Seismic Zone 4) and super typhoons (i.e. wind speeds up to 270 kph).

SMC Global Power complies for its company-owned generation plants, and it believes that the IPPs for each of the IPPA Power Plants managed by SMC Global Power comply, in all material respects with all applicable safety, health and environmental laws and regulations.

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008. The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and the Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate in 2014.

For each of its greenfield power plants, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary environmental compliance certificate ("**ECC**") in accordance with Philippine law.

The Company's coal-fired power plants have maintained levels of emission lower than the standards set by the Department of Environment and Natural Resources ("**DENR**"). The following table sets forth the level of nitrogen oxide ("**NOx**"), sulfur dioxide ("**SO_2**") and particulate matter ("**PM**") emissions of the power plants owned and operated by the Company, as well as the applicable emission control standards, for the six months ended June 30, 2020:

	NOx		SO_x		PM	
Power Plant	**Emission level**	**DENR Standard**	**Emission level**	**DENR Standard**	**Emission level**	**DENR Standard**
	(ppm)		(ppm)		(Mg/Nm³)	
Sual Power Plant*	182.0	732.0	317.1	524.0	13.8	200.0
Masinloc Power Plant	97.3	732.0	117.9	524.0	53.7	200.0
Limay Greenfield Power Plant	76.4	487.0	59.9	245.0	10.4	150.0
Davao Greenfield Power Plant	71.3	487.0	85.8	245.0	9.3	150.0

* *Operated under IPPA Agreement*

Supercritical coal technology typically performs better than subcritical coal technology, and is both more efficient and has less CO2 emissions for every unit of generation.

Technology	Net Thermal Efficiency (%)	CO2 Emissions Rate (MT/MWh)
Subcritical	32%	1.04
Supercritical	36%	0.88

Source: The Power of High Efficiency Coal, World Coal Association (2016).

A comparison of supercritical coal technology local and international emission control standards is provided below. Unit 3 of the Masinloc Power Plant utilizes supercritical coal technology. Its indicative emissions during performance testing, as reported in the Commissioning-Report for Air Emission Guarantees Test conducted by a third party is provided below. The testing was conducted on October 2019 for a total test period of more than 48 hours.

	Australia	China	EU	India	Japan	USA	Thailand	Philippines	World Bank	Masinloc Power Plant Unit 3 Performance Test	Masinloc Power Plant Unit 3 EPC Guarantee
SOx, ppm*	287	287	573	287	573	390	1,476	244	314	24.7	76.0
NOx, ppm**	719	206	411	206	411	196	843	486	248	79.7	239.0
PM, mg/Nm³	50	30	20	30	50	12	80	200	50	4.7	400.0

Source: Emission standards, IEA Clean Coal Centre.

* *converted using conversion factors 2.8571 mg/nm³ or mg/m³ for 1 ppm for SOx.*

** *converted using conversion factors 2.0493 mg/nm³ or mg/m³ for 1 ppm of NOx.*

A comparison of the indicative emissions per technology with the applicable emission control standard is as follows:

Emission	Subcritical		Supercritical		
	Indicative Emissions*	DENR Standard	Indicative Emissions**	EPC Guarantee	DENR Standard
SO_x (ppm)	85.8	244.2	29.8	76.0	244.2
NOx (ppm)	71.3	486.5	43.1	239.0	486.5
CO (ppm)	4.2	400.0	18.4	400.0	400.0
Opacity (%)	14.4	20.0	7.0	20.0	20.0
PM (**Mg/Nm³**)	9.3	200.0	18.7	50.0	200.0

Emission	Subcritical		Supercritical		
	Indicative Emissions*	World Bank Standard***	Indicative Emissions**	EPC Guarantee	World Bank Standard***
SO_x (ppm)	85.8	314.0	29.8	76.0	314.0
NOx (ppm)	71.3	248.1	42.1	239.0	248.1
PM (**Mg/Nm³**)	59.3	50.0	18.7	400.0	50.0

* *Indicative subcritical emissions refers to Davao Greenfield Power Plant emissions as of June 2020*

** *Actual figures based on Masinloc U3 Commissioning-Report for Air Emission Guarantees Test conducted by a third party with total test period over 48 hours.*

*** *Source: 2008 IFC Environmental, Health and Safety Guidelines*

For its LNG power plants, the Company anticipates emissions performance that is better than coal technologies.

Metric

Metric	LNG	Benchmark
Thermal Efficiency (%)	61-63%[(a)]	Min 53%[(b)]
Heat Rate (btu/KWh)	6,060[(a)]	Max 6,415[(b)]
Nox (mg/nm3)	38.6[(c)]	Max of 1,500.0[(d)]
Sox (mg/nm3)	2.1[(c)]	Max of 1,500.0[(d)]
CO (mg/nm3)	40.0[(c)]	Max of 500.0[(d)]
Opacity (%)	7.7[(c)]	Max of 20.0[(d)]
CO2 Emissions (lb per KWh)	0.92[(e)]	N/A

(a) *Based on gross efficiency and net heat rate at 100% CF derived from 59.4% net efficiency, as stated in offers received by SMC Global Power from EPC contractors for Ilijan Expansion Plant.*

(b) *LNG plant (GNPHR at 100% CF) based on 1,200 MW Meralco greenfield bid released in 2019. Converted to thermal efficiency using 3,600 kj/KWh.*

(c) *Actual Ilijan Performance — January to June 2020*

(d) *DENR regulations*

(e) *Energy Information Administration*

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site clean-up, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations and cash flow of the Company.

ENVIRONMENTAL, SOCIAL, GOVERNANCE AND SUSTAINABILITY INITIATIVES

The Company, through the SMCGP Philippines Power Foundation Inc. (the "**Foundation**"), has undertaken various projects and programs which is in line with the United Nations Sustainable Development Goals. The Foundation is focused on four thrusts: health, education, economic empowerment and environmental stewardship. One of its major initiatives is the "747 Program" with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation. In addition, the Foundation also has a strong focus on education with flagship initiatives such as scholarship programs prioritizing indigenous persons and youth from local communities where the Company operates. The Company also has an economic empowerment program called "Local Economy Acceleration and Progress (LEAP)" that create job opportunities and fosters community-driven entrepreneurship, among others. Lastly, there are several health programs that looks after the well-being of the relevant communities. The list below sets out the Company's key initiatives.

Foundation Thrusts	Sample Projects	United Nations Sustainable Development Goals
Health	1. Mobile Health Clinic 2. Medical Missions 3. Brgy. Community Health Clinic Improvement 4. Safe Water Access 5. BHW Capacity Building	UNSDG #3 — Good Health and Well Being
Education	1. Scholarship Program (for IPs and non-IPs) 2. School Facilities Improvement 3. Apprenticeship 4. Teacher Training	UNSDG #4 — Quality Education
Economic Empowerment	1. Local Job Creation 2. Technical Vocational courses 3. Community-driven Entrepreneurship 4. Processing Centers for Local Products	UNSDG #1 — No Poverty UNSDG #8 — Decent Work and Economic Growth
Environmental Stewardship	1. 747 Program (7 Million Trees for 7 Years) 2. Coral Reef Rehabilitation 3. Carbon footprint mitigation 4. Watershed management 5. Plastic Waste Recycling Facility	UNSDG #6 — Clean Water and Sanitation UNSDG #14 — Life Below Water UNSDG #13 — Climate Action UNSDG #15 — Life on Land

In addition, the Company completed its first sustainability report ("**2018 Sustainability Report**") using the Global Reporting Initiative ("**GRI**") as a framework, demonstrating the Company's commitment and awareness of the importance of sustainability and social responsibility to its stakeholders. The 2018 Sustainability Report covers the five power plants which the Company owns and operates, namely the Angat Hydroelectric Power

Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant, and the Masinloc Power Plant, along with its corporate office. The 2018 Sustainability Report has been published with the GRI organizational mark after undergoing the GRI materiality disclosures service, which granted the GRI organization mark to this report in June 2020.

In the process of completing its 2018 Sustainability Report, the Company conducted engagement and materiality testing to identify the specific GRI topics that are material to both the internal and external stakeholders of the Company. This resulted in 25 out of 33 topics identified as material or critical to stakeholders, translating into 102 disclosures across the economic, environmental, and social categories of the GRI.

The Company commissioned the University of Asia and the Pacific ("**UA&P**") to assist it in writing the 2018 Sustainability Report in accordance with the process and principles of the GRI.

The Company, through UA&P, tapped three experts in the fields of economic, environment, and social to comprise its External Review Committee (ERC-GRI) members. The ERC-GRI reviewed and provided external assurance and validation to the 2018 Sustainability Report. This included the review of the content and data quality of the 2018 Sustainability Report in relation to the GRI Standards. A collective statement was written by the ERC-GRI members to provide their findings and recommendations.

In line with the principles of the GRI, the report was a collaborative effort by the employees of the Company. A sustainability core team, a steering council, and technical working groups across each plant site were formed with the goal of embedding the sustainability process across the Company's operations. The sustainability mission of the Company drives it to provide reliable, accessible, and affordable energy to the country through powering the economic progress of the country, constant support and partnership with our communities, protecting employee welfare, and the responsible stewardship of nature.

The Company is currently working on its second Sustainability Report, which will cover 2019 and 2020. This report is targeted for release by May 2021.

EMPLOYEES

As of June 30, 2020, SMC Global Power and its subsidiaries have 1,563 employees, of which 74 are executives and managers and 108 are supervisors. All employees are based in Philippines. Since 2008, employees of SMC Global Power have not been members of any labor union. The Company has not experienced any work stoppages and considers its relationship with its employees to be good. Consistent with the goal of SMC Global Power to be one of the Philippines' preferred employers, SMC Global Power has adopted a rewards and recognition policy that is competitive with industry standards in the Philippines. In addition to the statutory benefits, SMC Global Power initiates benefits to provide for the increased security of its employees in the following areas: healthcare, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits and survivor security and death benefits. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talents. Tied to this is a performance management system that calls for the alignment of individual key results, competencies and development plans with the overall business targets and strategy of the Company. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives. SMC Global Power also has programs for its employees' professional and personal development.

The Long-Term Incentive Plan for Stock Options ("**LTIP**") of San Miguel Corporation grants stock options to eligible senior and key management officers of SMC Global Power as determined by the committee administering the LTIP as a means to further and promote the interests of San Miguel Corporation, SMC Global Power and its shareholders by enabling the San Miguel Corporation group of companies to attract, retain and motivate senior and key management officers. As of June 30, 2020, there are no more outstanding options under the LTIP.

With the ensuing 12 months, SMC Global Power may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

INSURANCE

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the power plants for which SMC Global Power is the IPPA are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance. SMC Global Power is not a beneficiary of any of these insurance agreements. SMC Global Power employs risk management for purposes of analyzing the risks faced by its business in the determining the appropriate insurance policies. SMC Global Power does not have business interruption insurance for its IPPA Power Plants and believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. SMC Global Power has procured all the necessary policies to cover all insurable risks for the ownership and operation of the Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant.

INTELLECTUAL PROPERTY

SMC Global Power owns exclusive rights to its corporate name. Management believes that the business of SMC Global Power as a whole is not materially dependent on any trademark or on any other intellectual property.

DESCRIPTION OF PROPERTY

SMC Global Power owns the Davao Greenfield Power Plant, Limay Greenfield Power Plant, Masinloc Power Plant and Masinloc BESS and the Tagum Peaking Power Plant. However, SMC Global Power does not own the IPPA Power Plants until it elects a transfer of ownership at the expiry of the IPPA Agreement.

The principal office address of SMC Global Power is 155 EDSA, Brgy, Wack-Wack, Mandaluyong City, Philippines and it has another office located at No. 7 St. Francis Street, Mandaluyong City, Philippines. These premises are leased by SMC Global Power from San Miguel Properties, Inc., a subsidiary of San Miguel Corporation.

LEGAL PROCEEDINGS

The subsidiaries of SMC Global Power are party to legal proceedings from time to time, including those set out below, and involving various parties, including the ERC. See "*Risk Factors — Risks Relating to SMC Global Power — ERC regulation of electricity rates of distribution utilities.*" The outcome of these proceedings cannot be presently determined or predicted with certainty.

Petition to stop the imposition of the increase in generation charge

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for Temporary Restraining Order ("**TRO**") and/or Preliminary Injunction ("**Petition**") filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("**Counter Petition**") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an Order treating the Counter-Petition as in the nature of a third-party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another sixty (60) days or until April 22, 2014 and granted additional TROs enjoining the PEMC and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the Supreme Court extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the Supreme Court.

ERC Order voiding WESM prices

Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap will be decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "**March 3, 2014 Order**"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI, filed before the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 2014, March 27, 2014, and May 9, 2014 (the "**2014 ERC Orders**"). On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its decision dated November 7, 2017 (the "**November 7, 2017 Decision**"), granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months November to December 2013.

Motions for reconsideration of the November 7, 2017 Decision and motions for intervention and motions to admit motions for reconsideration were filed by various intervenors.

In a resolution dated March 22, 2018, the Court of Appeals denied the aforesaid motions (the "**March 22, 2018 Resolution**"). In June 2018, the intervenors filed their respective motions for reconsideration of the March 22, 2018 Resolution. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming its November 7, 2017 Decision and March 22, 2018 Resolution.

The intervenors thereafter filed petitions for certiorari before the Supreme Court, First Division. Each were denied by the Supreme Court through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the Court of Appeals committed any reversible error in promulgating its Resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene (the "**March 29, 2019 Omnibus Resolution**").

MPPCL filed on January 22, 2020, while SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the Supreme Court. In its petition, the ERC appealed the November 7, 2017 Decision and the March 29, 2019 Omnibus Resolution, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

PEMC also filed a Motion to Admit Comment and Comment on the ERC's Petition for Review both dated March 12, 2020.

In a Resolution dated February 10, 2020, the SC directed the respondents to file their respective Comments on the Petition for Review filed by Meralco. SMEC, SPPC, SPDC, SPI, and Petron Corporation, received, through counsel, a copy of the Resolution on June 25, 2020. SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on July 15, 2020, while MPPCL filed on July 16, 2020, their Comments on Meralco's Petition, all within the period of extension granted by the SC.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to ₱2,322 million, plus interest.

Ilijan IPPA Agreement Dispute

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain its position that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court ("**RTC**") of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order dated October 19, 2015, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this June order of the RTC, PSALM filed a Petition for Certiorari with the Court of Appeals seeking to annul the order dated June 27, 2016. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders". The Court of Appeals, however, denied the petition filed by PSALM in its decision dated December 19, 2017 (the "**CA Decision**"). In the CA Decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the "**CA Resolution**"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the Supreme Court praying for the reversal and nullification of the CA Decision and the CA Resolution. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court's discretionary appellate jurisdiction (the "**March 4, 2019 Resolution**"). The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 resolution was denied by the Supreme Court in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgment issued by the Supreme Court on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City, SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although the Court of Appeals dismissed the Petition for Certiorari filed by PSALM in a resolution dated August 23, 2019 (the "**August 23, 2019 Resolution**"), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the August 23, 2019 Resolution. In a resolution dated February 24, 2020, the Court of Appeals required PSALM to revise its petition and send the revised copies to SPPC and Meralco.

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion in March 2020.

PSALM filed several pleadings: (i) Urgent Ex-Parte Motion for Early Resolution of its Motion for Leave to File Amended Answer Ad Cautelam dated May 28, 2020; (ii) Motion for Reconsideration of the RTC Order of February 14, 2020, which did not allow PSALM to present witnesses in support of its Motion to Dissolve the Writ of Preliminary Injunction and directed the parties to submit pleadings and documents in support of their respective positions; and (iii) Reply to SPPC's Opposition to its Motion to Dissolve the Writ of Preliminary Injunction. On July 6, 2020, SPPC filed an Opposition to the Motion for Reconsideration filed by PSALM on the RTC's order dated February 14, 2020.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the IPPA Agreement in 2022.

Complaints for estafa and corruption against PSALM officers

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of Republic Act No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act ("**R.A. 3019**"), before the Department of Justice ("**DOJ**"), against certain officers of PSALM, in connection with the termination of SPPC's

Ilijan IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of U.S.$60 million. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons, for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

Complaints for plunder and corruption against PSALM, TPEC, and TeaM Energy

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of TeaM Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file an Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of R.A. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

SMEC Consignation Case

On June 17, 2016, SMEC filed with the Regional Trial Court, Pasig City ("**RTC Pasig**") a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("**Sale of the Excess Capacity**"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and to Allow Future Consignation without Tender ("**Omnibus Motion**"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration ("**MR**") to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM's Comment on August 13, 2018.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case.

On December 13, 2019, the case was re-raffled to Branch 268. On February 7, 2020, a clarificatory hearing was held and Branch 268 noted the pending incidents, which are: (a) SMEC's Motion for Partial Reconsideration and Supplemental Motion for Reconsideration of the Order dated May 22, 2018; (b) SMEC's two Motions to Admit Supplemental Complaint; and (c) PSALM's Motion to Set Preliminary Hearing on the Special and Affirmative Defenses.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

Refund of system loss charge

In 2008, Meralco filed a petition for dispute resolution against PEMC, TransCo, NPC and PSALM seeking, among others, the refund of the transmission line loss components of the line rentals associated with PSALM/NPC bilateral transactions from the start of the WESM operations and Transition Supply Contract ("**TSC**") implemented in 2006. In this case, the ERC concluded that Meralco was being charged twice considering that it already paid line rental to the WESM beginning June 2006. Hence, the ERC ordered PSALM/NPC to refund Meralco the 2.98% system loss charge embedded in the NPC Time-of-Use ("**NPC TOU**") rate (Meralco vs. PSALM, NPC, TransCo).

On March 4, 2013, the ERC issued a subsequent order directing Meralco (i) to collect this system loss charge from the Successor Generating Companies ("**SGCs**") including SMEC and MPPCL, which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs, to recover the line loss collected by them as these SGCs were not parties to the petition for dispute resolution filed by Meralco in 2008. On July 1, 2013, the ERC clarified its previous order stating that SPPC should be included as one of the SGCs against whom Meralco is directed to file a petition.

In compliance with the ERC's March 4, 2013 and July 1, 2013 orders, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC (the "**Meralco Petition**"). On September 20, 2013, SMEC, SPPC and MPPCL, with the other SGCs, jointly filed a Motion to Dismiss before the ERC, on the ground of the Meralco Petition's failure to state a cause of action and the ERC's lack of jurisdiction over the subject matter of the Petition. To date, the Joint Motion to Dismiss remains unresolved by the ERC.

Validity of Concession Agreement with ALECO

The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed on December 16, 2014 by a certain group of persons headed by an individual who claims to be the president of ALECO (the "**Appellants**"), against APEC and its former general manager (the "**Defendants**"), enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global Power that was subsequently assigned to APEC. The foregoing Complaint also questioned the validity of the Concession Agreement due to alleged oppressive and disadvantageous provisions therein. On September 29, 2015, the trial court upheld the validity of the Concession Agreement and dismissed the Complaint. As a result, the Appellants filed an appeal with the Court of Appeals. On November 23, 2016, the Court of Appeals issued a decision ("**November 2016 Decision**") reversing the decision of the trial court on the ground that no pre-trial conference was conducted and ruled that the case should be remanded back to conduct the pre-trial conference and for the case to be resolved with dispatch in accordance with the Rules of Court. After motion for reconsideration from Defendants, the Court of Appeals sustained its November 2016 Decision on June 26, 2018.

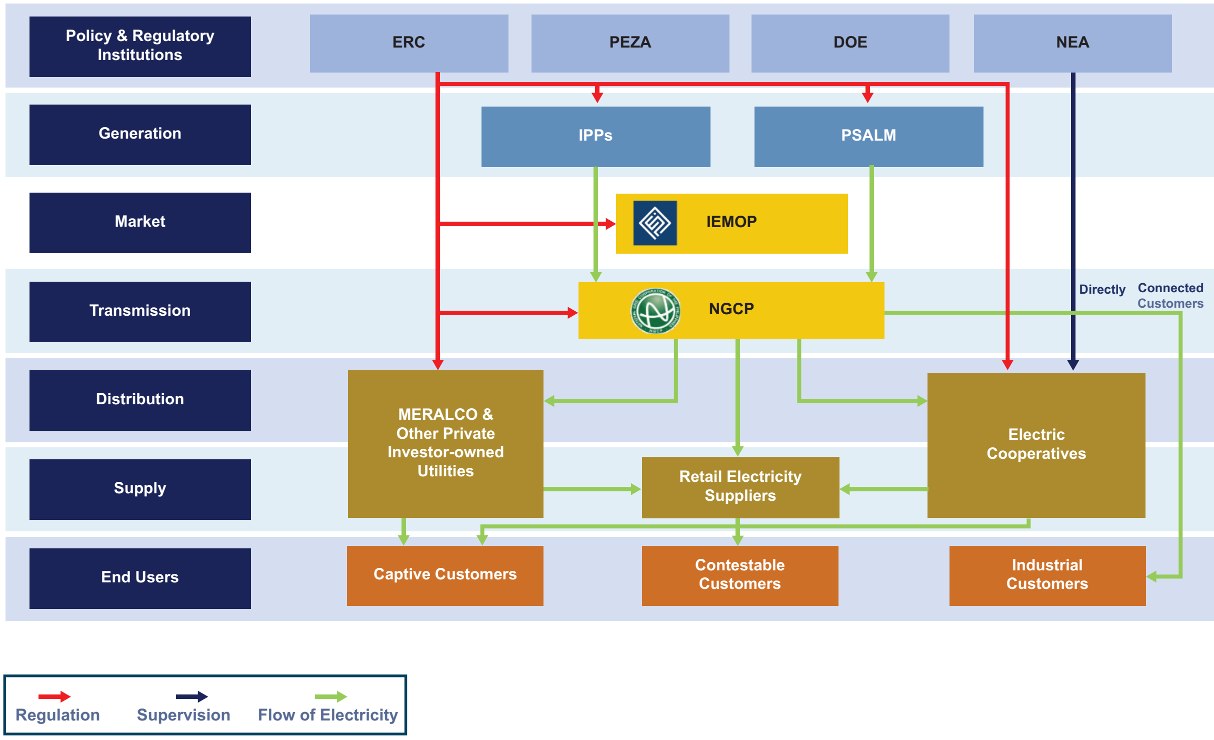
During the pre-trial conference on June 10, 2019, trial court judge to which the case was remanded ordered the dismissal of the case in favor of Defendants, as Appellants (now Plaintiffs) were deemed "non-suited" in violation of Rule 18 of the Revised Rules of Court. The dismissal of the case validates the legitimacy of the Concession Agreement between APEC and ALECO.

Other than those mentioned above, there are no material pending legal proceedings to which SMC Global Power or any of its subsidiaries and affiliates is a party or to which any of their material assets are subject.

Organization and Operation of the Power Industry

Republic Act No. 9136 or the EPIRA established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;

- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;

- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;

- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and

- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the Implementing Rules and Regulations (the "**IRR**") of the EPIRA on February 27, 2002.

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors will be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

Under the EPIRA, power generation per se is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. "Open Access" is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while "Retail Competition" is defined as the provision of electricity to a contestable market (which, under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 KW) by persons licensed by the ERC to engage in the business of supplying electricity end-users through Open Access.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the "**Captive Market**"), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be contestable customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the "**ERC RES Rules**"). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules.

As of the date of this Offering Circular, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectivity of the said Act.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

Based on latest available data from PSALM, PSALM has privatized 23 operating/generating power facilities and four decommissioned power facilities, with a total gross capacity of 4,601.43 MW. Moreover, additional seven power plants with total gross capacity of over 3,600 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 620 MW Limay combined cycle power plant, 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 92.52 MW Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant. In 2018, PSALM also commenced the privatization of the 650 MW Malaya thermal power plant in Rizal and the 210 MW Mindanao coal-fired plant in Misamis Oriental.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock. Under prevailing regulations, any offer of common shares of stock for sale to the public through any of the following modes shall be deemed as public offering:

- listing in the PSE;
- a public offering undertaken in accordance with the Securities Regulation Code and its implementing rules and regulations; and
- listing in any accredited stock exchange or direct offer of a portion of registered enterprises' capital stock to the public and/or their employees, when deemed feasible and desirable by the BOI.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("**Grid Code**"). TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. As the transmission of electric power is a regulated common carrier business, TransCo's transmission wheeling charges are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of, a concession over the transmission assets while the sub-transmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of U.S.$3.95 billion. On January 15, 2009, NGCP was officially granted the authority to operate the sole transmission system of the country pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine Grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or the PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operations of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity; and
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local Government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a certificate of public convenience and necessity from the ERC to operate as public utilities. Based on the latest available data from the DOE, there are 26 private distribution utilities and 124 electric cooperatives in the Philippines.

They are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("**Distribution Code**") (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. The retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is also subject to ERC approval. In addition, as a result of the policy of the Government in promoting free competition and Open Access, distribution utilities are now required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connection to a distribution system;

- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and

- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with contestable customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand highlights in the Philippines for 2019 based on data from the DOE:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity (MW)	Peak demand (MW)
Luzon	17,286	15,598	11,643	11,344
Visayas	3,809	3,306	2,668	2,224
Mindanao	4,436	3,832	2,295	2,013
Philippines	25,531	22,736	16,606	15,581

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities on their captive end-users, as well as the universal charge to be imposed on all electricity end-users, including self-generating entities;

- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the contestable market;

- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;

- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;

- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;

- to set a lifeline rate for marginalized end-users;

- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;

- to determine the electricity end-users comprising the contestable and Captive Markets;

- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;

- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;

- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;

- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and

- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities except cases which involve abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;

- ensuring the reliability, quality and security of the supply of electric power;

- exercise of supervision and control over all Government activities pertaining to energy projects;

- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;

- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;

- promotion of a system of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;

- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and

- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine senate and house of representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;

- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;

- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;

- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and

- determination of inherent weaknesses in the EPIRA and recommend necessary remedial legislation or executive measures.

Competitive Market Devices

WESM

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of June 2017, there were 260 wholesale membership participants and 946 retail membership entities registered at the WESM based on its 2017 Annual Report.

The PEMC and the Independent Electricity Market Operator of the Philippines Inc. ("**IEMOP**") have executed an operating agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from the PEMC to the IEMOP effective September 26, 2018. With the signing of the operating agreement, the IEMOP took over the market operations of the WESM, a function that previously performed by the PEMC. Republic Act No. 9136 requires the PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. The IEMOP is a non-stock, non-profit corporation led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, that was incorporated and organized to implement the plan. Beginning on September 26, 2018, the IEMOP has been running the electricity market and, among other things, managing the registration of market participants, receiving generation offers, announcing market prices, dispatching schedules of the generation plants and handling billing, settlement and collections. Under the policy and regulatory oversight of the DOE and the ERC, the PEMC has remained as the governing body for the WESM to monitor compliance by the market participants with the market rules.

WESM in Mindanao

In anticipation of the increase of supply condition in Mindanao, the DOE, through DOE Circular DC2017-05-0009, has declared the launch of the WESM. Similar to the operations in Luzon and Visayas, WESM's primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program commenced on June 26, 2017 where its objective is to familiarize all Mindanao participants in the implementation of the WESM. Commercial operations of WESM in Mindanao will commence upon compliance with certain criteria set out in DOE Circular DC2017-05-0009.

RCOA

The EPIRA likewise provides for a system of Open Access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution wheeling charges. The full commercial operation of RCOA in Luzon and Visayas commenced on June 26, 2013 with a total of 275 registered participants. Conditions for the commencement of such Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be contestable customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed contestable customers to stay with their current distribution utility until December 25, 2013, or until such time that they were able to find a RES provided that it promptly informs the distribution utility of such fact. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated contestable customers to secure their RSCs by June 25, 2016, including contestable customers with an average demand of 750 KW to 999 KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the contestable markets (i.e., under prevailing regulations, electricity end-users with monthly average peak demand of at least 500 KW) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

As of the date of this Offering Circular, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for the RCOA.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of the Performance-Based Regulation (“PBR”)

The ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering PBR, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues determined through a set regulatory asset base, the efficiency of the distribution utility and the latter’s capital, all of which are reviewed and approved by the ERC and used by the ERC to determine the efficiency factor of a distribution utility. For each year during the regulatory period, the distribution charge of a distribution utility is adjusted upwards or downwards taking into consideration the efficiency factor of the utility set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Competitive Selection Process

Under prevailing regulations, DUs and ECs are mandated to undertake a CSP in the procurement of PSAs to ensure the security and certainty of electricity prices of electric power in the long-term.

On February 1, 2018, the DOE issued the DOE CSP Policy, which sets forth the department’s policy on the conduct of CSP in the procurement by DUs and ECs. Under the DOE CSP Policy, all PSAs are required to be procured through the CSP, except in the following instances: (i) generation project owned by the DU funded by grants or donations; (ii) negotiated procurement of emergency power supply with a cooperation period not exceeding one year; (iii) provision of power supply by any mandated government owned and controlled corporations for off-grid areas prior to, and until the entry of new power providers in the area; and (iv) provision of power supply by PSALM through bilateral contracts. In the event the CSP fails twice, and there is no outstanding dispute on the conducted CSP, the DU or EC may use direct negotiation for purposes of procuring the relevant PSA. While the DOE CSP Policy effectively revoked the authority of the ERC to issue supplemental guidelines and procedures relating to implement the CSP, the DOE directed the ERC to: (i) establish and impose existing fines and/or penalties for non-compliance with the DOE CSP Policy, (ii) review compliance with the requirements of CSP, (iii) develop a template PSA to be used with electric power industry participants, and (iv) develop rules and procedures to address disputes arising from the conduct of the CSP.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the IRR, then President Arroyo issued Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Framework for Energy Storage System in the Electric Power Industry

DOE Department Circular No. DC2019-08-0012 dated August 1, 2019 sets forth the framework for energy storage systems in the electric power industry in the Philippines (the "**ESS Framework**"). An energy storage system ("**ESS**") refers to a facility acting as a load and a generator, which is designed to receive, store and convert such energy to electricity. ESS technologies include BESS, compressed air energy storage, flywheel energy storage, pumped-storage hydropower, and other emerging technologies that may be identified, qualified and approved by the DOE as ESS.

Under the ESS Framework, the following electric power industry participants may own and operate ESS: (i) generation companies, either as a stand-alone generating facility or an integrated ESS in its existing generating facilities; (ii) directly connected customers, for the purpose of managing their energy demands; (iii) end-users, for the purpose of managing their energy demands; (iv) qualified third parties, in conjunction with renewable energy-based generating facilities or as part of hybrid power systems to provide continuous electric service to households in the form of either a micro-grid or a distributed energy resource. Transmission network provider, small grid owner, system operator and system operator-small grid are prohibited from owning and operating an ESS. Further, the Transmission network provider is required to consider BESS as an alternative solution in addressing transmission issues such as line congestion and to consider ESS applications to defer network upgrades. In addition, the system operator is directed to optimize the addition of BESS into its ancillary services pool and prioritize environmentally friendly sources of energy.

Under the ESS Framework, ESS proponents shall apply and register their ESS for one or more of the following purposes:

- provision of ancillary services;
- provision of energy through bilateral supply contract or trading in the WESM;
- manage the penetration of renewable energy;
- auxiliary load management for generation companies;
- transmission/distribution facility upgrades deferment;

- transmission congestion relief;
- end-user demand management;
- distribution utility demand management; and
- distribution utility power quality management.

An ESS that provides frequency regulation, as part of the ancillary services, must be at least 20MW for the Luzon Grid and at least 5MW for the Visayas and Mindanao Grids.

All ESS proponents are required to secure (i) a COC as a generation company from the ERC pursuant to existing guidelines on licensing of generation facilities; (ii) an environmental compliance certificate or any other equivalent document from the DENR; and (iii) other requirements by relevant government agencies pursuant to their existing guidelines. Distribution utilities that intend to enter into a PSA with ESS proponents for the supply of electricity to its captive customers shall observe (a) market share and bilateral contract limitations under Section 45 of the EPIRA; and (b) the DOE CSP Policy.

All ESS facilities shall comply with the rules and regulations on safety, health, environmental standards and proper disposal enforced by appropriate government agencies. In addition, ESS facilities connected to the transmission system as well as ESS connected to the distribution system with capacity equal to or above the following regional thresholds:

- 10MW for Luzon Grid;
- 5MW for Visayas Grid; and
- 5MW for Mindanao Grid

are mandated to register in the WESM and shall be classified under the generation company category, in accordance with the WESM rules and market manuals. All ESS integrated in generation facilities of generation companies are required have a separate registration in the WESM and shall comply with the requirements on separate metering and monitoring facilities, among others.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a national franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability, health, safety and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued guidelines setting the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service capability ratio (which measures the ability of the power generation company to service its debts) of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

With the introduction of RCOA, the rates charged by a generation company are no longer regulated by the ERC, except rates for Captive Markets (as determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local Government authorities, relating to, among others, site acquisition, construction and operation, including environmental-related licenses and permits.

Ancillary Services

Under the EPIRA, NGCP has the obligation to ensure and maintain the reliability, adequacy, security, stability and integrity of the grid in accordance with the performance standards for its operations and maintenance, as set forth in the Grid Code, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.

In the performance of its functions as the grid system operator, NGCP requires ancillary services to ensure the power quality and stability of the grid. Ancillary services, as defined in Section 4(b) of the EPIRA, are services necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with the good utility practice and the Grid Code. These are support services to provide frequency control and include Primary Reserve, Secondary Reserve, and Tertiary Reserve.

In order to maintain the security and integrity of the grid, the system operator shall operate the grid in such a manner as to provide adequate frequency control to achieve operations within frequency limits at all times. Achieving effective frequency control requires the following ancillary services which are differentiated depending on their response time and sustainability.

- Primary Reserve Ancillary Service (PRAS). This reserve shall cover sudden outage or failure of synchronized generating unit or transmission line links or the power import from a single circuit interconnection, whichever is larger. The capacity of the PRAS provider should not be used in the regular energy supply but can be set to respond on small variations to system frequency to support the Secondary Reserves.

- Secondary Reserve Ancillary Service (SRAS). The system operator thru AGC shall use the Secondary Reserve to restore the system frequency from the quasi-steady state value as established by the Primary Response and Reserve of generating units back to the nominal frequency of 60 Hz during contingent event. Small variations to system frequency to support the balance through Governor Control Mode (GCM) may be initiated. Where the AGC function of the system operator is not fully operational, dispatcher may instruct the generator to transfer to GCM as well. SRAS should be controlled by the system operator thru Automatic Generation Control (AGC) with various AGC modes and frequency deadband settings in order to regulate the system frequency and the speed governing system shall be capable of accepting raise and lower signals or set point signals from the Control Center of the system operator.

- Tertiary Reserve Ancillary Service (TRAS). The capacity of the qualified generating units offered for this Ancillary Service should not be part of the regular energy supply and can either be synchronized to respond within 15 minutes or off-line provided that it can fully provide the required reserve within 30 minutes from the receipt of dispatch instruction. The Tertiary Reserve provider should be able sustain its contributed capacity for at least 60 minutes. If and only if, the Primary and Secondary Reserves have been exhausted, the system operator shall make use of the Tertiary Reserve to return/maintain the system frequency to 60Hz in cases of: tripping of a generating unit or a transmission line which creates generation-load unbalance, unplanned loss of the power import, disconnection of a large load or load blocks, system frequency increases above 60.1 Hz or reduces below 59.9 Hz and it is not possible to return it to nominal values with appropriate use of the Primary and Secondary Reserves. TRAS should be capable of operating thru AGC or manual mode and shall be monitored and controlled by the system operator.

To implement and regulate the procurement of ancillary services, the ERC approved the Ancillary Services Procurement Plan (ASPP) and the Ancillary Services — Cost Recovery Mechanism ("**AS-CRM**") on March 9, 2006 and October 3, 2007, respectively. Under the AS-CRM, NGCP secures Ancillary Services through the ASPA with qualified generation companies. For ancillary services arranged via the ASPA, the OATS Rules, the ASPP and the AS-CRM will be applied.

All ancillary services contracted by NGCP from qualified generators will be recovered through rates and charges from the generation customers, embedded generation customers and load customers, where applicable, subject to approval of the ERC.

ASPAs require the substantial completion of the project prior to contracting with the NGCP and are subject to ERC approval. These are generally for a term of five years, extendible for another five years with relatively standard rates, particularly for regulating reserves.

Philippine Downstream Natural Gas Regulations

On November 28, 2017, DOE issued DC2017-11-0012 which provides the rules and regulations governing the Philippine Downstream Natural Gas Industry ("**PDNGI**"). DC2017-11-0012 sets forth the rules and regulations for siting, design, construction, expansion, rehabilitation, modification, operation, and maintenance of the downstream natural gas industry value chain. DC2017-11-0012 covers all downstream natural gas facilities and the operations or activities relating thereto, such as importation of LNG, storage, regasification, transmission and distribution to customers including the pipeline and its related facilities used to transport natural gas, as well as the operations or activities related thereto after the point of sale up to the last connection point to the customers.

Under DC2017-11-0012, no person, natural or juridical, shall construct, expand, rehabilitate, modify, operate or maintain a downstream natural gas facility unless authorized to do so by the DOE. Further, a person who intends to engage in the importation of any quantity of natural gas shall apply for accreditation with the Oil Industry Management Bureau of the DOE ("**DOE-OIMB**"). Prior to any importation, the accredited importer shall send a pre-importation notice to DOE-OIMB within the required period prior to loading of every importation. Upon compliance with the pre-importation requirements of the DOE, the DOE-OIMB shall issue an Acknowledgement to Import LNG which shall serve as primary authority for the accredited importer to import the specified quantity of LNG. Post-importation notice shall be submitted to the DOE-OIMB not later than 20 working days after unloading of every importation.

Retail prices of natural gas converted from LNG shall be deregulated. However, such retail price is required to be unbundled to the extent of reflecting the following basic pricing components: (i) Landed Cost of the natural gas; and (ii) Tolling Fee. The term "Landed Cost" refers to the cost of imported LNG upon delivery to the Philippines, which consists generally of the total of free on board, insurance, freight cost, currency conversion, custom duties, taxes, port-related fees, and other applicable fees. The "Tolling Fee" is composed of capacity payments, operating expenses, taxes and other incidental costs used for receiving, storage, and regasification of LNG into natural gas form usable as fuel and its delivery to the customer or buyer.

Excess capacity of the LNG import terminal facilities, transmission system (i.e., the pipeline and related facilities used to transport LNG extending between the connections from the gathering facilities to the last connection point before the distribution system), distribution system (i.e., the pipeline and related facilities used to transport LNG extending between the last delivery points of the transmission system to the last connection point to the customer) and other services offered by the grantee of a permit to operate and maintain under DC2017-11-0012 ("**POM Grantee**") shall be available and accessible to third parties on a transparent and non-discriminatory basis. The term "capacity" is defined under DC2017-11-0012 as the "maximum capacity of the natural gas facility to provide the services for which that natural gas facility is developed, expressed in normal cubic meters per time unit or in energy unit per time."

As of the date hereof, the guidelines for third party access has yet to be issued by the DOE. Such guidelines shall however be based on the principles espoused under Section 1, Rule 8 of the DC2017-11-0012 which focuses primarily on transparency and encouraging competition to provide efficiencies and lower costs and prices to consumers. Under DC2017-11-0012, the POM Grantee shall determine, subject to the review and recommendation of the DOE's Downstream Natural Gas Review and Evaluation Committee and approval of the DOE Secretary, the maximum and excess capacity of the natural gas facilities to be offered to third parties. The POM Grantee shall allocate such excess capacity based on, but not limited to, the following criteria, as they pertain to the third-party user:

(a) proposed contract price and terms;

(b) credit-worthiness;

(c) existence of offtake facility; and

(d) ability to meet fuel specification parameters of the LNG facility.

On February 1, 2019, the DOE issued DC2019-02-004, requiring all entities engaged in the business of importing, trading, supply and distribution of natural gas to comply with the specifications of PNS/DOE QS 011:2016 "Petroleum gases — Natural gas — Quality Specification". Non-compliance with the foregoing requirement shall be a ground for the suspension or cancellation of the accreditation and the non-issuance of Acknowledgement to Import for succeeding applications.

Regulations relating to energy projects of national significance

On June 28, 2017, President Duterte issued Executive Order No. 30 ("**EO 30**") which created the Energy Investment Coordinating Council ("**EICC**") in order to streamline the regulatory procedures affecting energy projects. In the said order, the President declared that it is the policy of the Philippine Government to ensure a continuous, adequate and economic supply of energy; and, accordingly, an efficient and effective administration process for energy projects of national significance ("**EPNS**") should be developed in order to avoid unnecessary delays in the implementation of the Philippine Energy Plan ("**PEP**"). EPNS are major energy projects for power generation, transmission and/or ancillary services including those required to maintain grid stability and security for on and off-Grid areas, identified and endorsed by the DOE as "projects of national significance" that are in consonance with the policy thrusts and specific goals of the PEP, and which possess any of the following attributes:

(a) significant capital investment of at least ₱3.5 billion;

(b) significant contribution to the country's economic development, provided that this pertains to the potential of the project to promote to greater access to energy and energy supply security of the country;

(c) significant consequential economic impact, provided that this pertains to the potential of the project to generate jobs, employment and increase revenues for the government, among others;

(d) significant potential contribution to the country's balance of payments, provided that this refers to the potential of the project to contribute to the inflow of foreign investment capital;

(e) significant impact on the environment, provided that this pertains to the potential of the project to contribute to sustainability with minimal adverse effects to the environment;

(f) complex technical processes and engineering designs, provided that these refer to projects involving newly developed or pioneering energy systems and/or technologies; and

(g) significant infrastructure requirements, provided that the project has associated infrastructure necessary for the delivery of energy services and/or supply such as transmission and distribution networks.

The EICC is mandated to spearhead and coordinate national government efforts to harmonize, integrate and streamline regulatory processes, requirements and forms relevant to the development of energy investments in the country, primarily with regard to EPNS, to uphold transparency and accountability among concerned agencies. The rules, regulations and processes to be agreed upon within the EICC and to be adopted by its member-agencies shall adhere to the following baselines with regard to EPNS:

- *Presumption of prior approvals* — Government agencies and instrumentalities that receive an application for a permit involving EPNS shall process such applications without awaiting the action of any other agency. The processing agency shall act on the presumption that the relevant permits from other government agencies had already been issued.

- *Action within 30 days* — Government agencies and instrumentalities shall act upon applications for permits involving EPNS within a specified processing timeframe not exceeding 30 days from the submission of complete documentary requirements. Should such application be denied, the denial should be made in writing, expressly providing the grounds therefor. If no decision is made within the specified processing timeframe, the approving authority may no longer deny the application and shall issue the relevant permit within five working days after the lapse of such period.

No deviation from the baselines shall be allowed except when absolutely necessary either to enable an agency to comply with specific statutory directive or to avoid prejudicing the public interest. The procedures for the issuance of environmental compliance certificates which may be required for EPNS shall be among the matters to be discussed within the EICC.

On April 25, 2018, the DOE issued Department Circular No. 2018-04-0013, setting for the implementing rules and regulations of EO 30. The rules provide, among others, that a project registered with the DOE as an EPNS is entitled to the following rights, among others: (i) processing time of 30-working days upon submission to the relevant government agency of complete documentary requirements, (ii) to have its application processed, without awaiting the action of other government agencies where such action is a precondition to such application, (iii) on the assumptions that the submitted requirements are complete in substance and form, actions to be taken for the project must not exceed 30 working days and (iv) upon the determination of any defect or lapses in substance and form of the submitted documents, the project proponent shall be notified and will be given appropriate time to take the necessary actions. The foregoing rights extend to associated infrastructure of the project registered as an EPNS.

Energy Virtual One-Stop Shop ("EVOSS")

On March 8, 2019, Republic Act No. 11234, otherwise known as the "Energy Virtual One-Shop Act" ("**EVOSS Act**"), was signed into law establishing an energy virtual one-stop shop under the supervision of the DOE. The EVOSS is a web-based system that allows the coordinated submission and synchronous processing of all required data and information and provides a single decision-making portal for actions on applications for permits and/or certifications necessary for, or related to, an application of a proponent for new power generation, transmission or distribution projects.

Under the EVOSS Act, the relevant government agencies have the obligation to ensure that all actions on applications before it and its attached bureaus, offices, and agencies, at both the national and local levels, government-owned and -controlled corporations as well as local government units and other entities involved in the permitting process shall be released within the time frames stated in the EVOSS Act. Failure of the mother agency and its attached bureaus, offices, and agencies at both the national and local levels, including government-owned and -controlled corporations as well as local government units and other entities involved in the permitting process, to release its action on applications duly submitted with complete supporting electronic documents within the prescribed time frame shall cause applications to be deemed approved, provided that such deemed approval shall not apply to actions by DENR and ERC on applications by fossil fuel-based technologies such as coal, natural gas, and oil.

The EVOSS Act mandates participation and compliance by all government agencies and other relevant entities involved in the permitting process of all new power generation, transmission and distribution projects. A government's official and/or employee's willful refusal to participate in the EVOSS and failure to comply with the mandated time frames as provided in the EVOSS Act and its implementing rules, or as imposed by the EVOSS steering committee, shall be considered an administrative offense, and may be penalized with suspension without pay or dismissal and perpetual disqualification from public service, as applicable, without prejudice to the filing of criminal, civil or other related charges under existing laws, as may be appropriate.

Registration under the BOI

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI. Such incentives include: (i) income tax holiday, (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

On April 12, 2019, Republic Act No. 11285, otherwise known as the Energy Efficiency and Conservation Act, was enacted. Under the said law, upon certification by the DOE, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to the incentives provided under Executive Order No. 226, as amended, and any other applicable laws for 10 years from the effectivity of the Act. Said energy efficiency projects shall also be exempt from the requirements provided under Article 32(1) of Executive Order No. 226. Energy efficiency projects refer to projects designed to reduce energy consumption and costs by any improvement, repair, alteration, or betterment of any building or facility, or any equipment, fixture, or furnishing to be added to or used in any building, facility, or vehicle including the manufacturing and provision of services related thereto: provided, that such projects shall be cost-effective and shall lead to lower energy or utility costs during operation and maintenance.

Philippine Competition Act

On July 21, 2015, the President of the Philippines signed into law Republic Act No. 10667 or the Philippine Competition Act, which became effective on August 8, 2015. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. Although the Philippine Competition Act is silent on its applicability specifically to the electric power industry, Section 55(c) of the Philippine Competition Act provides that insofar as Section 43(u) of the EPIRA is inconsistent with provisions of the Philippine Competition Act, it shall be repealed. In view of this, the Philippine Competition Commission ("**PCC**") now has the original and exclusive jurisdiction over anti-competitive cases in the energy sector.

On May 31, 2016, the PCC promulgated rules and regulations in order to effectively carry out the provisions of the Philippine Competition Act. Under the Rules, parties to a merger or acquisition are required to provide notification to the PCC when the following thresholds are met: (i) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent company of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent company controls, directly or indirectly ("**Size of Party/Person**"), exceeds ₱1,000,000,000.00; and (ii) the value of the transaction ("**Size of Transaction**") exceeds ₱1,000,000,000.00. The Size of Party/Person and Size of Transactions have been gradually increased by the PCC to ensure that the thresholds maintain their real value over time and relative to the size of the economy. Beginning March 1, 2019 and for every subsequent year, the notification thresholds will be indexed based on the official estimates by the Philippine Statistics Authority of the nominal GDP growth for the previous calendar year rounded up to the nearest hundred million.

Under Commission Resolution No. 02-2020, effective March 1, 2020, the threshold in relation to the Size of Person was increased to ₱6,000,000,000.00, and the threshold for the Size of Transaction was increased to ₱2,400,000,000.00.

Notably, Bayanihan II exempted (a) from the compulsory notification requirement all mergers and acquisitions with transaction values below ₱50,000,000,000.00 if entered into within two years from Bayanihan II's effectivity; and (b) from the power of the PCC to review mergers and acquisitions motu proprio for a period of one year from Bayanihan II's effectivity. Bayanihan II became effective immediately upon its publication in a newspaper of general circulation or in the Official Gazette. Bayanihan II was published in Manila Bulletin on September 15, 2020.

On September 24, 2020, the PCC issued Commission Resolution No. 22-2020 adopting the "Rules for the Implementation of Section 4 (eee) of Republic Act No. 11494, otherwise known as the 'Bayanihan to Recover as One Act,' Relating to the Review of Mergers and Acquisitions" (the "**Bayanihan II PCC Rules**"). Under PCC's Commission Resolution No. 22-2020, it shall be effective upon publication in a newspaper of general circulation.

The Bayanihan II PCC Rules provides that in determining the transaction value, ₱50,000,000,000.00 shall be used as the new Size of Party/Person and Size of Transaction thresholds for compulsory notification. Mergers and acquisitions with at least ₱50,000,000,000.00 transaction value, and those that are entered into before the effectivity of Bayanihan II and exceed the applicable thresholds when the definitive agreement was signed, are still subject to compulsory notification. In terms of motu proprio review, mergers and acquisitions entered into before the effectivity of Bayanihan II which have not yet been the subject of PCC's review, or pending review by PCC before the effectivity of Bayanihan II Act, are not covered by Bayanihan II's exemption. Further, under the Bayanihan II PCC Rules, mergers and acquisitions that are likely to substantially lessen competition may be reviewed motu proprio after one year from Bayanihan II's effectivity.

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 ("**LGC**") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power are exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, regulate business establishments and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Labor and Employment

The Department of Labor and Employment ("**DOLE**") is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

Social Security System, PhilHealth and the Pag-IBIG Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Insurance Program administered by the Philippine Health Insurance Corporation a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013. On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program.

Under Republic Act No. 9679, the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund.

Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law by President Duterte on February 20, 2019. The Revised Corporation Code took effect on February 23, 2019 upon completion of its publication in Manila Bulletin and the Business Mirror on February 23, 2019.

Among the notable amendments in the Revised Corporation Code are as follows: (i) corporations are now generally given a perpetual existence; (ii) a new section on one-person corporation was added; (iii) the requirement that at least 25% of the authorized capital stock must be subscribed, and at least 25% of the subscribed shares must be paid-up upon incorporation was removed; (iv) stockholders can now vote in absentia; (v) incorporators now include any person, partnership, association or corporation; and (vi) the powers of the SEC to prosecute and investigate offenses under the Revised Corporation Code has been expanded.

Foreign Investments Act of 1991 ("FIA")

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the "**Negative List**"). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. Likewise, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term Philippine National is defined under the FIA as any of the following:

- a citizen of the Philippines;

- a domestic partnership or association wholly-owned by citizens of the Philippines;

- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;

- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or

- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In Jose M. Roy III v. Chairperson Teresita Herbosa (G.R. No. 207246) dated April 18, 2017, the Supreme Court affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the "**Narra Nickel Case**"), the Supreme Court affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders' own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (i) if the corporation's Filipino equity falls below sixty percent (60%), such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

ENVIRONMENTAL MATTERS

Environmental Compliance Overview

SMC Global Power applies the same focus and resources on operational excellence in its portfolio of coal-fired power plants as with its environmental compliance. Efficient emission mitigation begins with a dynamic fuel preparation process that ensures coal fineness through the use of reliable and versatile coal milling and grinding equipment. SMC Global Power plans to use dynamic classifiers to further improve coal fineness in the future. This would allow more efficient burning of coal (reducing NOx) and the use of lower calorific value ("**CV**") coal with lower sulfur content (reducing SOx). High CV coal with high sulfur content inherently does not only have higher emissions but are also significantly more expensive.

In addition to standard environmental control facilities customarily found in modern coal fired power plants such as enclosed coal conveyor and storage systems, ash storage systems, waste water treatment systems and air pollution and smoke stack systems, SMC Global Power's power plants have the following environmental control equipment and features that ensure that its NOx, SOx and particulate matter emissions within and below applicable local limits set by the DENR and emission limits set by the World Bank:

- CFB technology (used in SMC Global Power's greenfield power plants, Limay and Davao) operate the boilers at relatively lower pressure and temperatures (below 800 degrees centigrade) compared to pulverized coal technology. This results in better combustion and lower NOx and material particulates.

- Limestone injection to the fuel as it goes to the boiler is used for SMC Global Power's Plants to further reduce their SOx and particulate matter emissions.

- Unit 3 of Masinloc uses Supercritical boiler technology which, relative to an ordinary PC boiler (subcritical), has a significantly better combustion process resulting to a much-improved heat rate of coal — meaning less coal is required to produce a megawatt of electricity. This also allows the use of lower CV and lower sulfur coal, which is a key factor to lower SOx emissions.

- For Sual and Masinloc PC units, SMC Global Power uses Flue Gas Desulfurization ("**FGD**") equipment that can remove up to 90% of the SOx and particulate matter in the flue gas emissions of these plants. The FGDs use limestone and seawater to scrub SOx and particulate matter from the flue gases.

- For the greenfield plants, SMC Global Power uses Electrostatic Precipitators ("**ESP**") to remove particulate matter such as dust and soot, thru an electrostatic charge that captures these materials from the flowing gases on their way out the smoke stack.

- SMC Global Power conducts regular meetings with the IPP of the Sual Power Plant to ensure the Plant's fuel efficiency and compliance to environmental standards.

- For the Masinloc PC Units, SMC Global Power has reduced the CV and sulfur content of coal used from 6,100 kcal and 0.5% to only 5,500 kcal and 0.25%, respectively. This is accomplished without derating the power output of the units as a result of a recent retrofit work done on Unit 2 and preventive maintenance of Unit 1 that have retained and even improved the heat rate of these Units.

SMC Global Power also plans to explore the use of catalytic reduction technology on its PC Plants to further improve its NOx emissions. This is an advanced active emission control technology that injects a liquid reductant agent thru a special catalyst which is predominantly ammonia, into the flue gases to capture and remove NOx emissions.

SMC Global Power closely monitors and publishes on a weekly basis the emission data on the Limay and Davao Greenfield Power Plants, which is reviewed by both the DOE and the DENR. These power plants have emission levels that are less than 50% of the applicable local and World Bank emission limits.

Environmental Regulation

The operations of the businesses of SMC Global Power are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

EISS Law

The Philippine Environmental Impact Statement System (the "**EISS Law**") established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the Environmental Management Bureau ("**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement ("**EIS**") which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan ("**EMP**") in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund ("**EMF**") when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent's compliance with ECC conditions, EMP and applicable laws, rules and regulations.

Power plant operations are considered environmentally critical projects for which an EIS and an ECC are mandatory.

The Clean Water Act

The Clean Water Act (Republic Act No. 9275) and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Clean Air Act

Pursuant to the Clean Air Act of 1999 (Republic Act No. 8749) and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

The Renewable Energy Act

The Renewable Energy Act of 2008 (Republic Act No. 9513) aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the said law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

The RE Act establishes the framework for the accelerated development and advancement of renewable energy resources as well as the development of a strategic program to increase its utilization. The RE Act defines renewable energy resources as energy resources that do not have an upper limit on the total quantity to be used. Such resources are renewable on a regular basis, and their renewal rate is relatively rapid to consider availability over an indefinite period of time. These include, among others, biomass, solar, wind, geothermal, ocean energy, and hydropower conforming to internationally accepted norms and standards on dams, and other renewable energy technologies.

The DOE is the lead agency mandated to implement the provisions of the law.

On October 1, 2019, the DOE issued DC 2019-10-0013 which provided the omnibus guidelines governing the award and administration of renewable energy contracts and the registration of renewable energy developers. DC 2019-10-0013 became effective on November 22, 2019, or 15 days after its publication in two newspapers of general circulation. DC 2019-10-0013 primarily harmonized the existing guidelines and procedures governing the transparent and competitive system of awarding renewable energy contracts and registration of renewable energy projects.

Under DC 2019-10-0013, renewable energy contracts (i.e., service agreements between the government and a renewable energy developer which grant to the developer the exclusive right to explore, develop, or utilize the renewable energy resource within a particular area) shall be awarded through open and competitive selection process or direct application. The open and competitive selection process shall be adopted for the selection and award of the service contracts for pre-determined areas covering any type of resource for commercial purposes. On the other hand, direct application shall be available for the selection and award of (i) renewable energy operating contracts (i.e., service agreements for the development and/or utilization of renewable energy resources which, due to their technical characteristics need not go through pre-development stage); (ii) service contracts covering pre-determined areas following a failed open and competitive selection process; and (iii) service contracts for areas identified by the applicant and verified with and confirmed by the DOE-Information Technology Management Services as available for exploration, development and/or utilization of the proposed renewable energy resource.

Renewable Portfolio Standards and Requirements

Under the Renewable Energy Act (Republic Act No. 9513), Renewable Portfolio Standards ("**RPS**") refers to a market-based policy that requires electricity suppliers to source an agreed portion of their energy supply from eligible renewable energy resources. The mandated participants to the annual RPS requirements include: (i) all distribution utilities for their captive customers; (ii) all suppliers of electricity for the contestable market; (iii) generating companies only to the extent of their actual supply to their directly connected customers; and (iv) other entities as may be recommended by the National Renewable Energy Board and approved by the DOE.

Department Circular No. DC 2017-12-0015, which prescribes the rules and guidelines governing RPS for on-grid areas ("**RPS On-Grid Rules**"), provides that the renewable energy share of electricity coming from renewable energy resources in the energy mix should be based on the aspirational target of 35% in the generation mix expressed in MWh by 2030, subject to regular review and assessment by the DOE. Non-compliance with the RPS On-Grid Rules may result in administrative liability amounting to ₱100,000.00 to ₱500,000.00, criminal liability consisting of fine and/or imprisonment, or upon the DOE's discretion, the revocation of the mandated participant's license, franchise, or authority to operate.

DOE Circular No. DC2020-07-0017 was also issued to provide mandated participants with more avenues for compliance with their RPS requirements, by providing the framework for green energy auction. There are two kinds of green energy auctions: (i) supply-only auction; and (ii) integrated open and competitive selection process ("**OCSP**")-supply auction. In a supply-only auction, only the green energy implementation agreement will be awarded to the qualified suppliers and only renewable energy projects already covered by renewable energy contracts, which includes those that are under the pre-development and development stages, will be qualified to participate. On the other hand, in an OCSP-supply auction, renewable energy contracts will be awarded together with green energy implementation agreement resulting from an integrated process for OCSP-supply auction. DOE Circular No. DC2020-07-0017 provides further that a distribution utility that contracts for renewable energy supply through the green energy auction shall be considered as having complied with the competitive selection process requirements.

Other Environmental Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC Global Power include the following:

- The Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 (Republic Act No. 6969), which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines, or the keeping in storage of hazardous wastes which include byproducts, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

- The Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.

- The Code on Sanitation of the Philippines (the "**Sanitation Code**") (Presidential Decree No. 856), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial establishments. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit.

MANAGEMENT

The overall management and supervision of SMC Global Power is undertaken by the board of directors (the "**Board**"). The executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the SMC Global Power's business operations, financial condition and results of operations for its review.

BOARD OF DIRECTORS

Currently, the Board consists of the following members, three of whom are independent directors. The table below sets forth certain information regarding the members of the Board as of June 30, 2020.

Name	Age	Position	Citizenship
Ramon S. Ang	66	Director / Chairman	Filipino
Ferdinand K. Constantino	68	Director / Vice Chairman	Filipino
Aurora T. Calderon	66	Director	Filipino
Virgilio S. Jacinto	63	Director	Filipino
Jack G. Arroyo, Jr.	62	Independent Director	Filipino
Consuelo Ynares-Santiago	80	Independent Director	Filipino
Josefina Guevara-Salonga	78	Independent Director	Filipino

The business experience for the past five years of each of the directors and executive officers is set forth below.

Ramon S. Ang is the incumbent Chairman of the Board and Chief Executive Officer of SMC Global Power since August 31, 2010, and concurrently, the President and Chief Operating Officer of the Company since April 30, 2017. He is also the Chairman of the Executive Committee of SMC Global Power since September 2, 2011. He is the President and Chief Operating Officer of SMC since March 6, 2002 and Vice Chairman since 1999. He is also the Chairman and President of several subsidiaries of SMC Global Power such as San Miguel Energy Corporation ("**SMEC**"), San Miguel Electric Corp. ("**SMELC**"), South Premiere Power Corp ("**SPPC**"), Strategic Power Devt. Corp. ("**SPDC**"), SMC Consolidated Power Corporation ("**SCPC**"), San Miguel Consolidated Power Corporation ("**SMCPC**"), Universal Power Solutions, Inc., Central Luzon Premiere Power Corp. ("**CLPPC**"), Lumiere Energy Technologies Inc. ("**LETI**") and KWPP Holdings Corporation; Chairman of Angat Hydropower Corporation ("**AHC**"); and the Chairman and President and CEO of Mariveles Power Generation Corporation ("**MPGC**"). He also holds, among others, the following positions in other listed and public companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; President of Ginebra San Miguel Inc.; Chairman of the Board of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia), and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is the Chairman of the Board of San Miguel Brewery Inc., San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, and Philippine Diamond Hotel & Resort, Inc and SEA Refinery Corporation. He is the President of San Miguel Northern Cement, Inc.; President and Chief Executive Officer of Northern Cement Corporation; and the Chairman and President of San Miguel Properties, Inc., San Miguel Holdings Corp., San Miguel Equity Investments Inc., and San Miguel Aerocity Inc. He is the Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp. He is also the sole director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang holds directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University. On November 15, 2019, he attended a corporate governance training seminar conducted by Risk, Opportunities, Assessment and Management Inc. ("**ROAM**").

Ferdinand K. Constantino is a Director of SMC Global Power since August 31, 2010, the Vice Chairman of the Board of SMC Global Power since September 2, 2011 and was its Treasurer from August 31, 2010 to

September 1, 2011. He is a member of the Executive Committee, Corporate Governance Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. He is also the Group Chief Finance Officer and Treasurer of SMC and the Treasurer of San Miguel Food and Beverage, Inc. since July 5, 2018. He also served as a Director of SMC from May 31, 2010 to February 28, 2018. He is the Treasurer of SMELC, LETI and CLPPC and the Director of several subsidiaries of SMC Global Power. He also holds, among others, the following positions in other listed and public companies: Director of Top Frontier Investment Holdings, Inc., and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia). He is also the President of Anchor Insurance Brokerage Corporation; and Chairman of the San Miguel Foundation, Inc. and SMCGP Philippines Power Foundation Inc., SMC Stock Transfer Services Corporation and San Miguel Integrated Logistics Services Inc. He is also a director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., Citra Metro Manila Tollways Corporation, San Miguel Aerocity Inc., Northern Cement Corporation as well as the a director of the various subsidiaries of SMC Global Power. He is the Director and Chief Finance Officer of San Miguel Northern Cement, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served SMC as Chief Finance Officer of the San Miguel Beer Division; Chief Finance Officer and Treasurer of San Miguel Brewery Inc.; Director of San Miguel Pure Foods Company, Inc. and of San Miguel Properties, Inc.; and Chief Finance Officer of Manila Electric Company. He holds directorships in various domestic and international subsidiaries of SMC during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree. He attended the following seminars in 2019: (i) a corporate governance training seminar conducted by SGV & Co. on September 9, 2020 and (ii) a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices on December 5, 2019.

Aurora T. Calderon is a Director of SMC Global Power since August 31, 2010, a member of its Executive Committee since September 2, 2011. Ms. Calderon is also a member of the Executive Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is the Senior Vice President Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011 and has served as a director of SMC since June 10, 2014. She holds the following positions in other publicly listed companies: Director and Treasurer of Top Frontier Investment Holdings, Inc. and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia). She is also a member of the Board of Directors of Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Co. Ltd., San Miguel Equity Investments Inc., SMC Asia Car Distributors Corp., San Miguel Yamamura Packaging Corp., San Miguel Aerocity Inc as well as a director of the various subsidiaries of SMC Global Power. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various domestic and international subsidiaries of SMC. She also attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices on December 5, 2019, and a corporate governance training seminar conducted by SGV & Co. on September 9, 2020.

Virgilio S. Jacinto is the Corporate Secretary of SMC Global Power since August 31, 2010, a Director, and its Compliance Officer since September 2, 2011. He is also a member of the Corporate Governance Committee of SMC Global Power. He is the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary of several subsidiaries of SMC Global Power such as SMEC, SMELC, SPPC, SPDC, SCPC, and SMCPC. He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc., and Ginebra San Miguel, Inc. He is a Director of Petron Corporation and is a Director and Corporate Secretary of various domestic and international subsidiaries and affiliates of SMC. He was formerly the Vice President and First Deputy General Counsel of SMC. He was a Director and the Corporate Secretary of United Coconut Planters Bank, and a Partner at Villareal Law Offices. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Masters of Laws degree from Harvard School. He holds directorships in various domestic and international subsidiaries of SMC. On September 9, 2020, he attended a corporate governance training seminar conducted by SGV & Co.

Jack G. Arroyo, Jr. is an Independent Director of SMC Global Power since September 2, 2011. He is also the Chairperson of the Audit and Risk Oversight Committee, and a member of the Corporate Governance Committee and Related Party Transaction Committee of SMC Global Power. He is a medical doctor and who specializes in Ophthalmology, and a sub-specialist in refractive surgery. He is currently affiliated with The American Eye Center, The Medical City, and the Eye Referral Center. He is also a member of the Board of Directors of the Philippine Healthcare Educators, Inc., and the Philippine Health Insurance Corporation, representing the Elected Local Chief Executives. He is also a member of the Board of Trustees and Treasurer of Philippine Society of Cataract and Refractive Surgery, and the Vice-President for the National Capital Region of Centrist Democratic Political Educators, Inc. He is also currently the President of Casino Español de Manila. Dr. Arroyo obtained his Doctor of Medicine degree from the University of the Philippines College of Medicine. On November 15, 2019, he attended a corporate governance training seminar conducted by ROAM.

Consuelo M. Ynares-Santiago is an Independent Director of SMC Global Power since September 2, 2011. She is also the Chairperson of the Corporate Governance Committee, and a member of the Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is also an Independent Director of Anchor Insurance Brokerage Corporation, Top Frontier Investment Holdings, Inc., South Luzon Tollway Corporation and Phoenix Petroleum Phil. Inc. She served as an Associate Justice of the Supreme Court of the Philippines; Associate Justice of the Court of Appeals of the Philippines; and a Regional Trial Court Judge of Makati City. She graduated from the University of the Philippines College of Law. On March 15, 2019 and November 15, 2019, she attended corporate governance training seminars conducted by ROAM.

Josefina Guevara-Salonga is an Independent Director of SMC Global Power sinceNovember 7, 2017. She is also the Chairperson of the Related Party Transaction Committee and a member of the Corporate Governance Committee and Audit and Risk Oversight Committee of SMC Global Power. She is a former Associate Justice of the Court of Appeals. Previously, she was an Executive Judge of the Makati Regional Trial Court. She is currently a trustee of the Tahanan Outreach Program since 2010 and a member of the following associations: San Pedro, Laguna Lawyer's Association, University of the Philippines Women Lawyer's Circle since 1966 and Philippine Women's Judges Association. She also served as a trustee of the Society for Judicial Excellence from 2007 to 2014. She obtained her law degree from the University of the Philippines. On November 15, 2019, she attended a corporate governance training seminar conducted by ROAM.

SENIOR MANAGEMENT

The table below sets forth certain information regarding the executive officers of SMC Global Power as of June 30, 2020.

Name	Age	Position	Citizenship
Ramon S. Ang	66	Chairman, Chief Executive Officer, President and Chief Operating Officer	Filipino
Ferdinand K. Constantino	68	Vice Chairman	Filipino
Virgilio S. Jacinto	63	Corporate Secretary and Compliance Officer	Filipino
Elenita D. Go	59	General Manager	Filipino
Paul Bernard D. Causon	42	Vice President and Chief Finance Officer	Filipino
Ramon U. Agay.	62	Assistant Vice President and Comptroller	Filipino
Irene M. Cipriano	45	Assistant Corporate Secretary	Filipino
Reynaldo S. Matillano	59	Internal Audit Manager	Filipino
Maria Floreselda S. Abalos-Sampaga	55	Data Protection Officer	Filipino
Jeciel B. Campos	62	Assistant Vice President and Sales and Marketing Manager	Filipino
Jose Ferlino P. Raymundo	61	Assistant Vice President and Energy Sourcing & Trading Manager	Filipino
Danillo T. Tolarba	57	Assistant Vice President and Human Resources Group Manager	Filipino
Julie Ann B. Domino Pablo	38	Assistant Vice President and General Counsel	Filipino
Gonzalo B. Julian, Jr	53	Assistant Vice President, Sales and Marketing Manager-RES, and Head of the Battery Business	Filipino

The business experience for the past five years of each of the executive officers, who are not directors is set forth below.

Elenita D. Go is the General Manager of SMC Global Power since December 14, 2011. She joined SMC Global Power in June 2011 as Head of its Sales and Trading Group. She is currently the General Manager of several subsidiaries of the Company, including SMEC, SPPC, SPDC, SCPC, SMCPC, CLPPC and LETI, and is the Chairman of other subsidiaries of SMC Global Power. She is also the President of SMGCP Philippines Power Foundation Inc., the Managing Partner and Chief Executive Officer of MPPCL and SMCGP Philippines Energy, and the Chief Operating Officer of MPGC. Previously, she was a Director of Manila Electric Company and Head of the Corporate Procurement Unit of SMC. She graduated with a degree in Bachelor of Science in Electrical Engineering from Mapua Institute of Technology. In December 6, 2018, she also attended a corporate governance training seminar conducted by the Center for Global Best Practices. On December 5, 2019, she attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Paul Bernard D. Causon is the Chief Finance Officer of SMC Global Power since March 30, 2017 and was appointed Vice President of the Company on June 5, 2018. Mr. Causon is concurrently the Chief Finance Officer and Treasurer of Angat Hydropower Corporation. He is also the Chief Finance Officer of MPPCL and SMCGP Philippines Energy, and the Chief Financial Officer of SMGCP Philippines Power Foundation Inc. He is the Treasurer and Chief Finance Officer of MPGC, the General Manager of SMELC and Head of RES Business Segment of SCPC. He previously served as Vice President, Head of Treasury and Head of Special Projects of Philippine Airlines Inc. and Air Philippines Corporation; Chief Finance Officer and Treasurer of Liberty Telecoms Holdings, Inc. and Wi-Tribe Telecoms Inc.; Partner, Audit Banks and Other Financial Institutions of Manabat Sanagustin & Co., CPAs; and Vice President and Comptroller of China Banking Corporation. He graduated *magna cum laude* from the University of the Philippines with a degree in Bachelor of Science in Business Administration and Accountancy and placed fourth in the Certified Public Accountant Licensure Examination in 2000. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Ramon U. Agay is the Comptroller of SMC Global Power since September 2, 2011, and was appointed Assistant Vice President on March 25, 2015. He is also the Finance Manager of the various subsidiaries of SMC Global Power, such as SMEC, SMELC, SPPC, SPDC, SCPC, SMCPC, CLPPC and LETI, and the Treasurer of Daguma Agro, Bonanza Energy, Sultan Energy, Mantech Power Dynamics Services Inc., Safetech Power Services Corp. and several other subsidiaries of SMC Global Power. He is the Executive Vice President and Treasurer of Alpha Water and the Comptroller of MPGC. He had previously held finance positions in SMC and its subsidiaries. He obtained a degree in Bachelor of Science in Commerce, major in Accounting from San Sebastian College. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Irene M. Cipriano is the Assistant Corporate Secretary of SMC Global Power since 2010. She is an Assistant Vice President and Associate General Counsel of SMC. She is also the Assistant Corporate Secretary of Top Frontier Investment Holdings, Inc., and the Corporate Secretary and Assistant Corporate Secretary of various subsidiaries of SMC Global Power and SMC. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. and Philippine Airlines Inc. She completed her Bachelors of Law degree from San Beda College of Law in 2000. On November 15, 2019, she attended a corporate governance training seminar conducted by ROAM.

Reynaldo S. Matillano is the Audit Manager of SMC Global since November 1, 2015 and was appointed as Internal Audit Manager on June 6, 2017. Prior thereto, he was part of the audit team of San Miguel Yamamura Packaging Corporation and SMC. He holds a degree in Bachelor in Business Administration, major in Accounting from Saint Paul University in Dumaguete City. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Maria Floreselda S. Abalos-Sampaga was appointed as the Data Protection Officer of the SMC Global Power on March 11, 2019 after having joined the Company as a regulatory compliance specialist onMay 1, 2018. She is also the Data Protection Officer of the subsidiaries of SMC Global Power. Prior thereto, she held positions in several agencies of the government such as the ERC, the National Wages and Productivity Commission and the

Department of Labor and Employment. She obtained her Bachelor of Laws from the Manuel L. Quezon University. On December 5, 2019, she attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Jeciel B. Campos is the Sales and Marketing Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Campos is a registered Mechanical Engineer and previously worked as a Marketing & Commercial Relations Officer for Central Luzon at the National Power Corporation Regional Office. He graduated from Mapua Institute of Technology with a Bachelor of Science degree in Mechanical Engineering. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Jose Ferlino P. Raymundo is the Energy Sourcing & Trading Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Raymundo and is a Professional Electrical Engineer with over 32 years of experience in the power sector having worked for the Power Sector Assets and Liabilities Management Corporation and National Power Corporation prior to joining SMC Global Power. He holds a Bachelor of Science in Electrical Engineering degree from Mapua Institute of Technology. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Danilo T. Tolarba has been the Head of the Human Resources Division of SMC Global Power since 2015 and was appointed Assistant Vice-President and Human Resources Group Manager of the Company on June 5, 2018. Previously, Mr. Tolarba was the Manager of HR Services, Employee Relations, HR Technology, Organization Development and Recruitment of SMC Corporate Human Resources; and also held other various senior human resources positions in SMC and its subsidiaries prior thereto. He holds a Bachelor in Business Management degree from the Polytechnic University of the Philippines. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Julie Ann B. Domino-Pablo is the Assistant Vice President and General Counsel of SMC Global Power effective July 1, 2020, after having served as its Legal Officer since 2014. She is also the Corporate Secretary of various subsidiaries of SMC Global Power. She was admitted to the Philippine Bar and the New York State Bar in 2009 and is a Certified Public Accountant. Prior to SMC Global Power, Atty. Domino-Pablo was the Chief-of-Staff of the Office of the President & CEO and the concurrent Corporate Planning Department Manager of PSALM Corporation and a consultant to the Office of the General Counsel of the Asian Development Bank. She also worked for Picazo Buyco Tan Fider & Santos Law Offices until 2010 and for Sycip Gorres Velayo & Co. as an auditor until 2004. She obtained her Master in Law degree from the University of Pennsylvania Law School and completed the Wharton Business and Law Certificate Program at the Wharton School of Business in 2013.

Gonzalo B. Julian, Jr. is the Assistant Vice President, the Sales and Marketing Manager — RES, and the Head of the Battery Business of SMC Global Power effective March 1, 2020. Prior to the acquisition of MPPCL and other entities of the Masinloc Group, he was the Managing Partner and CEO of MPPCL and the Assistant Vice President — Commercial of SMCGP Philippines Inc. He was also a member of the Board of Directors of the Grid Management Committee of the Philippines in 2019 representing the Large Generating Companies sector and has held various positions therein from 2014 to 2019, including Chairman of the Grid Code Compliance Subcommittee and Vice Chairman of Grid Reliability Subcommittee, among others. Mr. Julian was also the Energy Manager of Holcim Philippines, Inc. and the representative of Holcim Philippines, Inc. in the Board of Directors of Trans-Asia Power Generation Corp. in 2012. He also worked in the Asset Management and Planning Division of MERALCO from 1989 to 2008. He is a licensed electrical engineer, a graduate of the Mapua Institute of Technology and a holder of Master of Science in Electrical Engineering Degree (Major in Power Systems) from the University of the Philippines. At present, he is completing his Doctor of Philosophy in Electrical and Electronics Engineering Degree in the University of the Philippines.

PRINCIPAL SHAREHOLDER

San Miguel Corporation is the principal shareholder of SMC Global Power and owns 100% of the issued share capital of SMC Global Power.

San Miguel Corporation is a corporation organized and existing under the laws of the Republic of the Philippines, with registered principal office address at No. 40 San Miguel Avenue, Mandaluyong City. San Miguel Corporation is a public company under Section 17.2 of the Philippine SRC and its shares are listed on the PSE. San Miguel Corporation, together with its subsidiaries, is one of the largest publicly listed companies in the Philippines.

San Miguel Corporation has become one of the largest and most diversified conglomerates in the Philippines, with sales equivalent to approximately 5.5% of Philippine GDP in 2019. Originally founded in 1890 as a single brewery in the Philippines, San Miguel Corporation currently owns market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, and property and investments in car distributorship and banking services. The common shares of San Miguel Corporation were listed on the PSE on November 5, 1948, and as of June 30, 2020 San Miguel Corporation had a market capitalization of ₱238,390 million (U.S.$4,784.1 million).

RELATED PARTY TRANSACTIONS

SMC Global Power engages from time to time in a variety of transactions with related parties. The Company has conducted transactions with related parties on an arm's-length basis. See Note 21 and Note 20 of the audited consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2019, 2018 and 2017, respectively, and Note 13 of the unaudited interim condensed consolidated financial statements of SMC Global Power as of and for the six months ended June 30, 2020 for more detailed information.

TAXATION

The statements herein regarding taxation are based on the laws and administrative guidelines issued by the relevant authorities in force as of the date of this Offering Circular and are subject to any changes in such law and administrative guidelines issued by the relevant authorities occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities or dealers which have been granted financial sector tax incentives in Singapore) may be subject to special rules. Prospective purchasers of the Securities are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Securities.

PHILIPPINE TAXATION

As used in this section, the term "resident alien" means an individual whose residence is within the Philippines and who is not a citizen of the Philippines and a "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business within the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business within the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines.

The characterization of the Securities and Distributions for tax purposes is not settled under Philippine tax laws and regulations. Subject to definitive law or regulation or a specific ruling issued by Philippine tax authority in respect of the Securities, the Distributions may be treated as dividends or interest for tax purposes. Interest on debt instruments or interest-bearing obligations of residents (corporate or otherwise), and the amount received as dividend from domestic corporations, are generally considered as income derived from a source within the Philippines. Since the Company is a Philippine resident or a domestic corporation, Distributions received by Securityholders will be treated as income derived from a source within the Philippines and will generally be subject to Philippine income tax.

Documentary Stamp Tax

Under the National Internal Revenue Code of 1997, as amended (the "**Tax Code**"), certain documents, instruments, papers, acceptances, assignments, sales and transfers of obligations, rights or property may be subject to documentary stamp tax. Documentary stamp tax will be levied, collected and paid for by the person making, signing, issuing, accepting or transferring the document wherever the document is made, signed, issued, accepted or transferred when the relevant obligation or right arises from a Philippine source or the relevant property is situated in the Philippines.

The Tax Code imposes documentary stamp tax on all original issuances of shares of stock at of ₱2.00 for each ₱200, or fractional part thereof, of the par value of such shares of stock or actual consideration for the issuance of the shares (in the case of no par value shares). On every original issuance of debt instruments, a documentary stamp tax of ₱1.50 on each ₱200, or fractional part thereof, of the issue price of any such debt instruments is imposed under the Tax Code. The original issuance of the Securities (whether treated as shares of stock or debt instruments) will therefore be subject to documentary stamp tax at the foregoing rates based on the issue price of the Securities. The documentary stamp tax due on the original issuance of the Securities will be for the account of the Company.

Transfers of shares of stock by assignment in blank, delivery, or by any paper, agreement or memorandum or other evidence of transfer or sale (including to secure the future payment of money or for the future transfer of stock) is subject to documentary stamp tax at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the par value of such shares of stock, or at an amount equivalent to 50% of the documentary stamp tax paid upon the issuance of the shares in the case of no par value shares. Accordingly, subsequent transfers or dispositions of Securities, if treated as shares of stock for tax purposes, will be subject to documentary stamp tax at these rates.

No documentary stamp tax is generally payable on the subsequent transfer or disposition of debt instruments, provided that the transfer or disposition does not constitute a renewal or entail a change in the maturity date or remaining period of coverage of the relevant instrument. Accordingly, if the Securities are treated as debt instruments, no documentary stamp tax will generally be imposed on their subsequent transfer or disposition, provided that any such transfer or disposition meets the foregoing requirements.

Distributions on the Securities

Distributions that are characterized as dividends for Philippine tax purposes will be subject to final withholding tax at the rate of (i) 10% if the Securityholder is a Philippine citizen or resident alien or (ii) 20% if the Securityholder is a non-resident alien engaged in trade or business within the Philippines. A non-resident alien not engaged in trade or business within the Philippines is subject to final withholding tax at the rate of 25% regardless of whether the Distributions are characterized as dividends or interest or other fixed or determinable periodic or casual gains or profits. A non-resident foreign corporation is generally taxable on all gross income received from all sources within the Philippines at the rate of 30%; however, if Distributions received by non-resident foreign corporations are regarded as taking the form of dividends for Philippine tax purposes, they may be subject to final withholding tax at the rate of 15%, provided that the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign-sourced dividends or allows a credit against the tax due from the non-resident foreign corporation, in which case taxes are deemed to have been paid in the Philippines equivalent to 15%, representing the difference between the regular income tax rate of 30% and the 15% tax rate on dividends. Distributions received by domestic corporations and resident foreign corporations that are regarded as taking the form of dividends for Philippine tax purposes are not subject to Philippine tax.

On the other hand, the tax treatment of interest generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), long-term deposits or investment certificates, currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business within the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as "residents" in respect of taxation of Philippine-sourced income). Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 0% – 35% for individuals and 30% regular corporate income tax or 2% minimum corporate income tax ("**MCIT**"), as the case may be, for domestic and resident foreign corporations), subject to the withholding by the issuer of an amount equivalent to 15% of such interest, which shall be creditable against the income tax liability of the resident for the relevant taxable year.

Interest on debt instruments received by non-residents will generally be subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 20%, if the holder is a non-resident foreign corporation on the assumption that the debt instrument is a "foreign loan" granted by such non-resident foreign corporation. "Foreign loans" are defined as loan contracts, including all types of debt instrument, whether in kind or in cash, which are payable in a currency other than the Philippine Peso, entered into by a Philippine resident, corporate or otherwise, with a non-resident. Distributions will be taxed in the manner and at the rate described above if they are characterized as interest. The tax withheld constitutes a final settlement of Philippine tax liability in respect of such interest or dividend income earned by the non-resident individual not engaged in trade or business within the Philippines or by the non-resident foreign corporation. For the purpose of implementing these rules, the Company will determine the holder of the Securities based on the records of the Registrar.

The Company, as required by the Tax Code, will withhold and make payment of the applicable withholding tax described above. However, the Company shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amounts received by Securityholders equal the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See "*Terms and Conditions of the Securities — Taxation and Gross-up*."

The above-mentioned tax rates are without prejudice to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of the non-resident holder. Most tax treaties to which the

Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest or dividend arises in the Philippines and is paid to a resident of the other contracting state. In addition, some treaties provide that the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonded indebtedness or in the case of a dividend, where the recipient of the dividend beneficially owns at least 10% or 25% of the issuer, depending on which treaty applies. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest or dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing or dividend-earning interest is effectively connected with such permanent establishment.

The Philippine tax authorities have prescribed a certain procedure for claiming tax treaty benefits for dividend and interest income of non-resident income earners. The preferential treaty rates for dividend and interest income of non-residents shall be applied and used outright by the withholding agents upon submission by the non-resident of a Certificate of Residence for Tax Treaty Relief ("**CORTT**") Form that complies with Revenue Memorandum Order No. 8-2017. The use of the preferential rates shall be done through withholding final taxes at applicable treaty rates. Withholding agents or income payors can withhold at a reduced rate or exempt the non-resident based on the duly accomplished CORTT Form submitted to them. Failure to submit a CORTT Form to the withholding agent or income payor would mean that the non-resident is not claiming any tax treaty relief and therefore such income should be subjected to the normal rate provided under the Tax Code.

Sale or Other Disposition of the Securities

In general, a holder of a Security will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Securities in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Securities.

If the Securities are considered shares of stock

The net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax at the rate of 15% of the net capital gains realized during the taxable year.

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are subject to final tax at the following rates:

Not over ₱100,000	5%
On any amount in excess of ₱100,000	10%

Accordingly, if the Securities are regarded as "shares of stock" for Philippine tax purposes, capital gains tax will be payable on the sale or disposition of the Securities. Gains from the sale of shares of stock in a domestic corporation are treated as derived entirely from a source within the Philippines, regardless of where the shares are sold.

If the Securities are considered debt securities

Gains realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificate of indebtedness ("**Long-Term Bonds**") are exempt from income tax. Accordingly, if the Securities are regarded as Long-Term Bonds for Philippine tax purposes, gains realized from the sale or transfer of the Securities will be exempt from Philippine income tax.

If the Securities are not regarded as Long-Term Bonds for Philippine tax purposes, the tax treatment of gains from the sale or transfer of the Securities will generally depend on the status of the Securityholder, whether the

Securities are held as an ordinary or capital asset and the place of sale of the Securities. Gains from the sale or transfer of the Securities within the Philippines will be included in the computation of taxable income of certain Securityholders and subject to ordinary income tax rates (at graduated rates from 0% to 35% for citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines, 25% for non-resident aliens not engaged in trade or business in the Philippines, 30% regular corporate income tax or 2% MCIT, as the case may be, for domestic and resident foreign corporations and 30% for non-resident foreign corporations). Gains derived by resident citizens and domestic corporations from the sale or disposition of the Securities outside the Philippines will be subject to ordinary income tax based on the above tax rates, while gains derived by non-resident citizens, aliens and foreign corporations from the sale of the Securities outside the Philippines will not be taxable.

If the Securityholder is a resident of a country with which the Philippines has an income tax treaty, an exemption from tax on gains from the alienation of personal property (such as the Securities) may be available under the applicable tax treaty. The procedures for availment of the applicable tax treaty relating to such gains will have to be duly complied with under existing rules.

In the event the Securities are held as capital assets, capital gains recognized can be reduced by any capital loss up to the extent of the capital gain recognized. Further, in case the Securityholder is (i) an individual, (ii) is not a dealer in securities, and (iii) has held the Securities for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in said Securityholder's gross income for Philippine tax purposes.

Value-Added Tax

The transfer of the Securities in the Philippines by dealers in securities will be subject to value-added tax at the rate of 12% on the gross income they derive from the sale or exchange of the Securities.

Estate and Donor's Tax

Securities issued by a corporation organized or constituted in the Philippines in accordance with Philippine laws are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor's taxes.

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Securities shall be subject to an estate tax which is levied on the net estate of the deceased at a rate of 6%. A Securityholder shall be subject to donor's tax at a rate of 6% based on the total gifts in excess of ₱250,000.00 made during the calendar year on the transfer of the Securities by donation.

The estate tax or donor's tax shall not be collected in respect of intangible personal property situated in the Philippines (such as the Securities) if (a) the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or of the donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the decedent or donor.

In case the Securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes, provided that a transfer of property made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

CLEARANCE AND SETTLEMENT OF THE SECURITIES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Company believes to be reliable, but neither the Company, the Trustee, the Agents nor any Manager takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Securities and transfers of the Securities associated with secondary market trading.*

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organizations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant rules and procedures of the institution.

Registration and Form

Book-entry interests in the Securities held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in the Securities will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Securities in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Securities, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of Securities registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or, if individual Global Certificates are issued in the limited circumstances described under "*The Global Certificate — Registration of Title*", holders of Securities represented by those individual Global Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Company for holders of interests in the Securities holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect of the Securities; however, holders of book-entry interests in the Securities may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

Upon their original issue, the Securities will be in global form represented by the Global Certificate. Interests in the Securities will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Securities through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Securities will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value on the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Securities through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Securities among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

Neither the Company nor any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

GENERAL

The Joint Lead Managers have agreed, pursuant to a Subscription Agreement dated October 14, 2020 (the "**Subscription Agreement**") between SMC Global Power and the Joint Lead Managers and subject to the satisfaction of certain conditions, to procure subscriptions and payment for the aggregate principal amount of the Securities. In addition, SMC Global Power has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Securities.

The Subscription Agreement provides that SMC Global Power will indemnify the Joint Lead Managers against certain liabilities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to SMC Global Power.

The Joint Lead Managers and their affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services for SMC Global Power and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for SMC Global Power, and/or its affiliates in the ordinary course of their business.

The Joint Lead Managers or certain of their affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes but not with a view to distribution. The Issuer or the Joint Lead Managers may pay commissions to certain third parties (including, without limitation, commission or rebate to private banks).

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with SMC Global Power or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of SMC Global Power or its subsidiaries, jointly controlled entities or associated companies, including the Securities, may be entered into at the same time or proximate to offers and sales of the Securities or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Securities. The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

If a jurisdiction requires that the offering of Securities be made by a licensed broker or dealer and the Joint Lead Managers or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of SMC Global Power in such jurisdiction. The distribution of this offering circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this offering circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This offering circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

OFFERING AND SELLING RESTRICTIONS

None of SMC Global Power or the Joint Lead Managers makes any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or SMC Global Power that would permit a public offering of the

Securities, or possession or distribution of this offering circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this offering circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Joint Lead Managers will also ensure that no obligations are imposed on SMC Global Power in any such jurisdiction as a result of any of the foregoing actions. SMC Global Power will have no responsibility for, and the Joint Lead Managers will not obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the Securities other than as contained in, or which is consistent with, the offering circular or any amendment or supplement to it.

United States of America

The Securities are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S. The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**")) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Circular, or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being an "offering circular" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Each Joint Lead Manager has represented and agreed that it will not offer or sell any Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

European Economic Area and the United Kingdom

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area or the United Kingdom. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Philippines

Under Republic Act No. 8799, known as the Securities Regulation Code (the "**Philippine SRC**"), and its implementing rules, securities, such as the Securities, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are registered with the SEC or are otherwise exempt securities or sold pursuant to an exempt transaction.

The Securities are being offered in the Philippines to any number of qualified buyers as defined in the Philippine SRC and applicable regulations. The offer and sale of the Securities qualify as an exempt transaction pursuant to section 10.1(l) of the Philippine SRC. A confirmation of exemption from the SEC that the offer and sale of the Securities in the Philippines qualify as an exempt transaction under Philippine SRC is not required to be, and has not been, obtained.

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED, AND WILL NOT BE REGISTERED WITH THE SEC UNDER THE PHILIPPINE SRC. ANY FUTURE OFFER OR SALE OF THE SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

LEGAL MATTERS

Certain legal matters as to Philippine law relating to the Securities and the offer through the Offering Circular will be passed upon by Picazo Buyco Tan Fider & Santos, legal counsel to SMC Global Power, and SyCip Salazar Hernandez & Gatmaitan, legal counsel to the Joint Lead Managers. Certain legal matters as to United States federal law and English law will be passed upon by Latham & Watkins LLP, legal counsel to SMC Global Power, and Milbank LLP, legal counsel to the Joint Lead Managers.

Each of the foregoing legal counsel has neither shareholdings in SMC Global Power nor any right, whether legally enforceable or not, to nominate persons or to subscribe for securities in SMC Global Power. Each of the legal counsel will not receive any direct or indirect interest in SMC Global Power or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

INDEPENDENT AUDITORS

The fiscal year of SMC Global Power begins on January 1 and ends on December 31 of each year.

KPMG, has audited the consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2017, 2018 and 2019 and has reviewed the unaudited condensed consolidated financial statements of SMC Global Power as of and for the six months ended June 30, 2020, in accordance with the Philippine Standards on Auditing.

GLOSSARY OF SELECTED TERMS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set forth below.

Actual Energy Generated	Actual output of the power plant measured in GWh, MWh or KWh attributable to the contracted capacity of the Sual Power Plant, Ilijan Power Plant or San Roque Power Plant, as applicable.
AHC	Angat Hydropower Corporation.
AHEPP	Angat Hydroelectric Power Plant.
ALECO	Albay Electric Cooperative, Inc.
ancillary services	Refer to support services necessary to support the transmission capacity and energy that are essential in maintaining power quality and reliability of the grid.
APEC	Albay Power and Energy Corp.
ASPA	Ancillary services procurement agreement
Average Net Dependable Capacity	Average for any given period of the Net Dependable Capacity within that period, expressed in MW.
Availability Factor	Ratio, in percent, equal to (1)(a) the number of hours in a period (e.g., a month or a year) less (b) the average number of hours of planned and unplanned outages during that period, divided by (2) the number of hours in that period.
Bayan	Bayan Resources TBK.
Bayanihan II	Republic Act No. 11494 (Bayanihan to Recover as One Act)
BESS	Battery energy storage systems.
Bonanza Energy	Bonanza Energy Resources, Inc.
BOT	Build operate transfer.
BSP	Bangko Sentral ng Pilipinas, the Central Bank of the Philippines.
BTU	British thermal unit, a unit of heat energy.
CAGR	Compound annual growth rate.
CFB	Circulating fluidized bed.
China	The People's Republic of China.
Clean Air Act	The Philippine Clean Air Act of 1999.
Clean Water Act	The Philippine Clean Water Act of 2004.

Clearing System Business Day	A day on which Euroclear and Clearstream, Luxembourg are both open for business.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Clearstream, Luxembourg	Clearstream Banking, S.A.
CLPPC	Central Luzon Premiere Power Corp.
COC	Coal operating contract.
contestable customer	Electricity end-users with monthly average peak demand of at least 1MW for the preceding 12 months to the initial implementation of Open Access, which shall be reduced to 750 KW two years thereafter. Under current regulations, end-users with monthly average peak demand of at least 500 KW may voluntarily participate in the retail market.
contestable market	A market of end-users who have a choice on their supplier of electricity.
Daguma Agro	Daguma Agro Minerals, Inc.
Davao Greenfield Power Plant	The 2 x 150 MW coal-fired power plant located in Malita, Davao Occidental.
DENR	Department of Environment and Natural Resources of the Philippines.
Distribution Code	The Philippine Distribution Code.
DOE	Department of Energy of the Philippines.
DOE CSP Policy	DOE Circular No. DC2018-02-0003, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market".
ECA	Energy Conversion Agreement.
ECC	Environmental Compliance Certificate.
EIS	Environmental Impact Statement.
EISS Law	Philippine Environmental Impact Statement System.
EPIRA	Philippine Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001.
ERC	Energy Regulatory Commission of the Philippines.

ER Claim	Equivalent relief claim.
ERC Order	The order dated March 3, 2014 issued by the ERC which voided the WESM prices for the November and December 2013 billing months and imposed recalculated prices to be calculated by PEMC.
Euroclear	Euroclear Bank SA/NV.
FIA	Foreign Investments Act of 1991 of the Philippines.
FRSC	The Financial Reporting Standards Council of the Philippines.
FSMA	The Financial Services and Markets Act 2000 of the United Kingdom.
FSU	Floating storage unit.
FSRU	Floating storage regasification unit.
GDP	Gross domestic product.
Government	The Government of the Philippines.
grid	Refers to the national grid, which is the national transmission system and related facilities that conveys bulk power.
Grid Code	Philippine Grid Code.
GW	Gigawatt, a unit of electrical power equivalent to 1,000 MW.
GWh	Gigawatt hours, a unit of electrical energy equivalent to 1,000 MWh.
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China.
IASB	The International Accounting Standards Board.
Ilijan ECA	The ECA under which NPC is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant.
Ilijan IPPA Agreement	The IPPA agreement dated May 11, 2010 made between PSALM and SMC Global Power with the conformity of the NPC relative to the IPP contract of NPC for the Ilijan Power Plant.
Ilijan Power Plant	Natural gas fired combined cycle power plant with installed capacity of 2 x 600 MW located in Ilijan, Batangas.
Installed Capacity	Gross maximum dependable capacity of a power plant, expressed in MW, i.e., the maximum amount of power that can be generated by the power plant.

IPP	Independent Power Producer.
IPPA	Independent Power Producer Administrator.
IPPA Agreement	Independent Power Producer Administration Agreement.
IPPA Power Plants	The Sual Power Plant, the San Roque Power Plant and the Ilijan Power Plant.
IRR	Implementing Rules and Regulations of EPIRA promulgated on February 27, 2002.
ISO	International Organization for Standardization.
K-water	Korea Water Resource Corporation.
Kcal	Kilo-Calorie, a unit of heat energy.
KEILCO	KEPCO Ilijan Corporation, owner of the Ilijan Power Plant, which is a joint venture between Korea Electric Power Corporation, Mitsubishi Corporation and TeaM Energy.
KPC	Kaltim Prima Coal.
KV	Kilo-Volts, a unit of voltage equivalent to 1,000 volts.
KW	Kilowatt, a unit of electrical power equivalent to 1,000 watt.
KWh	Kilowatt hours, a unit of electrical energy equivalent to 1,000 watt hour.
Limay Greenfield Power Plant	The 4 x 150 MW coal-fired power plant located in Limay, Bataan.
Limay Cogeneration Plant	The 140 MW cogeneration power plant owned by Petron Corporation.
LNG	Liquefied natural gas.
Local Government Code	Philippine Republic Act No. 7160, as amended.
Luzon Grid	An interconnected network of transmission lines running through Luzon island for delivering electricity.
Masinloc BESS	The 10 MW battery energy storage project in Masinloc, Zambales.
Masinloc Power Plant	The 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project under commissioning located in Masinloc, Zambales.
Meralco	Manila Electric Company.

Mindanao Grid	An interconnected network of transmission lines running through Mindanao for delivering electricity.
MPGC	Mariveles Power Generation Corporation.
MPPCL	Masinloc Power Partners Co. Ltd.
Must Pay Volume	The monthly generation payments SMC Global Power "must pay" for electricity sold up to a given volume.
MW	Megawatt, a unit of electrical power equivalent to 1,000 kilowatt.
MWh	Megawatt hours, a unit of electrical energy equivalent to 1,000 kilowatt hour.
MWSS	Metropolitan Waterworks and Sewerage System.
NEA	National Electrification Administration of the Philippines.
Net Capacity Factor	Ratio, in percent, equal to (1) actual electricity generated by a power plant in a period (net of electricity utilized to drive power plant service or auxiliaries), divided by (2)(a) number of hours in the period multiplied by (b) the contracted capacity of such power plant.
Net Dependable Capacity	Gross dependable capacity of a power plant (which may be less than Installed Capacity at any given time if technical problems are present) less the power plant capacity utilized to drive power plant station service or auxiliaries, expressed in MW.
Net Heat Rate	Heat energy required by a power plant to produce one KWh of electrical energy net of the parasitic or auxiliary loads of the power plant, usually expressed in terms of BTU/KWh, Kcal/KWh or Kilo-Joule/KWh.
NGCP	National Grid Corporation of the Philippines.
NIA	National Irrigation Administration.
Non-NPC	IPP-owned and operated plants.
NPC	National Power Corporation of the Philippines.
NPC-IPP	NPC-owned and IPP-operated plants.
NWRB	National Water Resources Board.
Open Access	System of allowing qualified persons to use the transmission and/or distribution systems and associated facilities of distribution utilities subject to the payment of transmission and/or distribution wheeling rates approved by the ERC.

PDS	Philippine Dealing System.
PEMC	Philippine Electricity Market Corporation.
PFRS	Philippine Financial Reporting Standards.
Philippine peso or Pesos or ₱	The lawful currency of the Philippines.
Philippines	Republic of the Philippines.
Philippine SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended.
PPA	Power purchase agreement.
PSA	Power supply agreement.
PSE	The Philippine Stock Exchange.
PSALM	Power Sector Assets and Liabilities Management Corporation.
PSC	Power supply contract.
PVEI	PowerOne Ventures Energy Inc.
RCOA	Retail Competition and Open Access.
Reliability Factor	Ratio, in percent, equal to (1)(a) the number of hours in a period less (b) the average unplanned outage hours in that period divided by (2) the number of hours in that period.
RES	Retail Electricity Supplier.
Revised Corporation Code	Republic Act No. 11232, also known as the Revised Corporation Code of the Philippines.
RSC	Retail supply contract.
San Roque IPPA Agreement	The IPPA Agreement dated December 29, 2009 made between PSALM and SMC Global Power with the conformity of NPC relative to the IPP contract of NPC for the San Roque Power Plant.
San Roque Power Plant	Hydroelectric multipurpose power plant with installed capacity of 345 MW located in San Manuel, Pangasinan.
San Roque PPA	The PPA made between SPDC and NPC dated October 11, 1997 in relation to the San Roque Power Plant.
SEC	The Philippine Securities and Exchange Commission.

Securities Act	The United States Securities Act of 1933, as amended.
Securities and Futures Act	The Securities and Futures Act, Chapter 289 of Singapore.
SGX-ST	Singapore Exchange Securities Trading Limited.
SMC Global Power	SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries.
SCPC	SMC Consolidated Power Corporation.
SMCPC	San Miguel Consolidated Power Corporation.
SMEC	San Miguel Energy Corporation.
SMELC	San Miguel Electric Corp.
SPDC	Strategic Power Devt. Corp.
SPI	SMC PowerGen, Inc.
SPPC	South Premiere Power Corp.
SRPC	San Roque Power Corporation, operator of the San Roque power plant.
Sual ECA	Energy Conversion Agreement dated September 2, 2009 made between NPC and CEPA Pangasinan Electric Limited for the Coal-Fired Thermal Power Station at Sual, Pangasinan, Philippines.
Sual IPPA Agreement	The IPPA Agreement dated September 2, 2009 made between PSALM and SMEC with the conformity of NPC relative to the IPP contract of NPC for the Coal-Fired Thermal Power Station.
Sual Power Plant	2 x 647 MW Coal-fired power plant located in Sual, Pangasinan.
Sultan Energy	Sultan Energy Phils. Corp.
TeaM Energy	TeaM Sual Corporation, owner of the Sual Power Plant, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation.
TransCo	National Transmission Corporation.
unplanned outage	A shutdown of the plant for reasons other than planned outage. For purposes of calculating measures of power plant performance that are reported by the IPPs such as availability and reliability factors, shutdown due to (1) faults or failures in the transmission system, (2) force majeure events, (3) disruptions in fuel supply and (4) dispatch orders from the grid system operators are not included in unplanned outage.

United States or U.S.	The United States of America.
UPSI	Universal Power Solutions Inc. (formerly Limay Power Generation Corporation
U.S.$ or U.S. dollar	Lawful currency of the United States of America.
Visayas Grid	An interconnected network of transmission lines running through Visayas for delivering electricity.
WESM	Wholesale electricity spot market.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of financial position as at June 30, 2020, and condensed consolidated interim statements of income, condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim statements of cash flows for the periods ended June 30, 2020 and 2019, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements is not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

Other Matter

We audited the consolidated financial statements of the Group as at and for the year ended December 31, 2019 and expressed an unqualified opinion thereon dated March 9, 2020.

Limitation of Use

The accompanying condensed consolidated interim financial statements were prepared solely for information and use by the management of SMC Global Power Holdings Corp. and Subsidiaries and is not intended to be, and should not be used by anyone other than for the specified purpose.

R.G. MANABAT & CO.

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PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

August 14, 2020
Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND DECEMBER 31, 2019
(In Thousands)

	Note	**2020 (Unaudited)**	2019 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 19, 20*	**P92,995,124**	P79,954,187
Trade and other receivables - net	*8, 13, 19, 20*	**37,651,461**	29,989,449
Inventories	*13*	**4,942,821**	5,085,423
Prepaid expenses and other current assets	*13, 19, 20*	**25,284,565**	23,589,625
Total Current Assets		**160,873,971**	138,618,684
Noncurrent Assets			
Investments and advances - net		**10,672,054**	11,000,760
Property, plant and equipment - net	*9*	**159,382,502**	150,344,032
Right-of-use assets - net	*6, 10*	**165,220,341**	166,517,296
Deferred exploration and development costs		**712,822**	710,836
Goodwill and other intangible assets - net		**72,795,283**	72,771,271
Deferred tax assets		**965,735**	1,128,754
Other noncurrent assets	*19, 20*	**16,490,057**	16,027,360
Total Noncurrent Assets		**426,238,794**	418,500,309
		P587,112,765	P557,118,993
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*19, 20*	**P1,744,050**	P2,278,575
Accounts payable and accrued expenses	*11, 13, 19, 20*	**40,658,573**	35,402,892
Lease liabilities - current portion	*6, 19, 20*	**23,671,629**	23,085,083
Income tax payable		**438,235**	214,776
Current maturities of long-term debt - net of debt issue costs	*12, 19, 20*	**16,712,773**	6,036,174
Total Current Liabilities		**83,225,260**	67,017,500
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*12, 19, 20*	**208,498,750**	220,762,867
Deferred tax liabilities		**16,079,453**	13,197,658
Lease liabilities - net of current portion	*6, 19, 20*	**89,682,909**	101,117,596
Other noncurrent liabilities	*19, 20*	**2,294,023**	1,598,616
Total Noncurrent Liabilities		**316,555,135**	336,676,737
Total Liabilities		**399,780,395**	403,694,237

Forward

	Note	2020 (Unaudited)	2019 (Audited)
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Senior perpetual capital securities	*14*	**96,058,166**	65,885,565
Redeemable perpetual securities	*14*	**32,751,570**	32,751,570
Undated subordinated capital securities	*14*	**13,823,499**	13,823,499
Equity reserves		**(3,032,044)**	(2,568,395)
Retained earnings		**43,172,820**	38,987,442
		186,326,515	152,432,185
Non-controlling Interests		**1,005,855**	992,571
Total Equity		**187,332,370**	153,424,756
		P587,112,765	P557,118,993

See Selected Notes to the Condensed Consolidated Interim Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Thousands, Except Per Share Data)

	Note	**2020 (Unaudited)**	2019 (Unaudited)
REVENUES	*5, 13, 15*	**P57,176,549**	P72,510,656
COST OF POWER SOLD	*16*	**36,193,420**	50,226,562
GROSS PROFIT		**20,983,129**	22,284,094
SELLING AND ADMINISTRATIVE EXPENSES	*8, 9, 10*	**2,863,008**	3,899,624
INCOME FROM OPERATIONS		**18,120,121**	18,384,470
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*6, 11, 12*	**(9,368,321)**	(10,304,169)
INTEREST INCOME	*7*	**726,824**	668,699
EQUITY IN NET LOSSES OF AN ASSOCIATE AND JOINT VENTURES		**(393,722)**	(22,003)
OTHER INCOME - Net	*17*	**4,059,233**	2,220,172
INCOME BEFORE INCOME TAX		**13,144,135**	10,947,169
INCOME TAX EXPENSE		**4,081,005**	3,684,491
NET INCOME		**P9,063,130**	P7,262,678
Attributable to:			
Equity holders of the Parent Company		**P9,049,846**	P7,273,017
Non-controlling interests		**13,284**	(10,339)
		P9,063,130	P7,262,678
Earnings Per Common Share Attributable to Equity Holders of the Parent Company			
Basic/diluted	*18*	**P2.67**	P3.39

See Selected Notes to the Condensed Consolidated Interim Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Thousands)

	Note	**2020 (Unaudited)**	2019 (Unaudited)
NET INCOME		**P9,063,130**	P7,262,678
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to profit or loss			
Net gain on cash flow hedges	*20*	**242**	26,093
Loss on exchange differences on translation of foreign operations		**(463,891)**	(665,305)
OTHER COMPREHENSIVE LOSS - Net of tax		**(463,649)**	(639,212)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P8,599,481**	P6,623,466
Attributable to:			
Equity holders of the Parent Company		**P8,586,197**	P6,633,805
Non-controlling interests		**13,284**	(10,339)
		P8,599,481	P6,623,466

See Selected Notes to the Condensed Consolidated Interim Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Thousands)

		Equity Attributable to Equity Holders of the Parent Company												
							Equity Reserves							
	Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Senior Perpetual Capital Securities	Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2020 (Audited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P13,823,499**	**P65,885,565**	**(P1,621,661)**	**(P843,421)**	**(P63,403)**	**(P39,910)**	**P38,987,442**	**P152,432,185**	**P992,571**	**P153,424,756**
Net income		-	-	-	-	-	-	-	-	-	9,049,846	9,049,846	13,284	9,063,130
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	(463,891)	-	242	-	(463,649)	-	(463,649)
Total comprehensive income (loss)		-	-	-	-	-	-	(463,891)	-	242	9,049,846	8,586,197	13,284	8,599,481
Issuance of senior perpetual capital securities	14	-	-	-	-	30,172,601	-	-	-	-	-	30,172,601	-	30,172,601
Share issuance costs		-	-	-	-	-	-	-	-	-	(141,622)	(141,622)	-	(141,622)
Distributions:														
Senior perpetual capital securities	14	-	-	-	-	-	-	-	-	-	(2,962,962)	(2,962,962)	-	(2,962,962)
Redeemable perpetual securities	14	-	-	-	-	-	-	-	-	-	(1,024,664)	(1,024,664)	-	(1,024,664)
Undated subordinated capital securities	14	-	-	-	-	-	-	-	-	-	(735,220)	(735,220)	-	(735,220)
Transactions with owners		-	-	-	-	30,172,601	-	-	-	-	(4,864,468)	25,308,133	-	25,308,133
As at June 30, 2020 (Unaudited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P13,823,499**	**P96,058,166**	**(P1,621,661)**	**(P1,307,312)**	**(P63,403)**	**(P39,668)**	**P43,172,820**	**P186,326,515**	**P1,005,855**	**P187,332,370**
As at January 1, 2019, as previously reported (Audited)		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16, Leases		-	-	-	-	-	-	-	-	-	(18,917)	(18,917)	-	(18,917)
As at January 1, 2019, as adjusted		1,062,504	2,490,000	32,751,570	26,933,565	-	466,843	145,256	8,052	(1,844)	31,882,862	95,738,808	-	95,738,808
Net income		-	-	-	-	-	-	-	-	-	7,273,017	7,273,017	(10,339)	7,262,678
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	(665,305)	-	26,093	-	(639,212)	-	(639,212)
Total comprehensive income (loss)		-	-	-	-	-	-	(665,305)	-	26,093	7,273,017	6,633,805	(10,339)	6,623,466
Issuance of senior perpetual capital securities	14	-	-	-	-	25,802,615	-	-	-	-	-	25,802,615	-	25,802,615
Non-controlling interests from acquisition of an asset		-	-	-	-	-	(4,017)	-	-	-	-	(4,017)	997,519	993,502
Share issuance costs		-	-	-	-	-	-	-	-	-	(606)	(606)	-	(606)
Distributions:														
Undated subordinated capital securities	14	-	-	-	-	-	-	-	-	-	(1,594,455)	(1,594,455)	-	(1,594,455)
Redeemable perpetual securities	14	-	-	-	-	-	-	-	-	-	(1,057,875)	(1,057,875)	-	(1,057,875)
Transactions with owners		-	-	-	-	25,802,615	(4,017)	-	-	-	(2,652,936)	23,145,662	997,519	24,143,181
As at June 30, 2019 (Unaudited)		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P25,802,615	P462,826	(P520,049)	P8,052	P24,249	P36,502,943	P125,518,275	P987,180	P126,505,455

See Selected Notes to the Condensed Consolidated Interim Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2020 AND 2019
(In Thousands)

	Note	**2020 (Unaudited)**	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P13,144,135**	P10,947,169
Adjustments for:			
Interest expense and other financing charges	*6, 11, 12*	**9,368,321**	10,304,169
Depreciation and amortization	*9, 10*	**5,149,731**	4,869,822
Equity in net losses of an associate and joint ventures - net		**393,722**	22,003
Unrealized marked-to-market loss on derivatives	*20*	**51,717**	281,644
Impairment losses on trade and other receivables	*8*	**37,976**	120,695
Gain on sale of transportation equipment		**-**	(1,397)
Reversal of allowance on other receivables	*8, 17*	**(68,775)**	-
Interest income	*7*	**(726,824)**	(668,699)
Unrealized foreign exchange gain - net		**(952,138)**	(2,600,002)
Operating income before working capital changes		**26,397,865**	23,275,404
Decrease (increase) in:			
Trade and other receivables - net		**(7,711,756)**	(1,590,214)
Inventories		**113,210**	1,133,622
Prepaid expenses and other current assets		**(1,986,972)**	(779,667)
Increase (decrease) in:			
Accounts payable and accrued expenses		**5,641,342**	2,719,492
Other noncurrent liabilities and others		**633,523**	(96,056)
Cash generated from operations		**23,087,212**	24,662,581
Interest income received		**715,214**	621,899
Income taxes paid		**(480,088)**	(920,030)
Interest expense and other financing charges paid		**(10,161,796)**	(10,934,130)
Net cash flows provided by operating activities		**13,160,542**	13,430,320
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of transportation equipment		**-**	1,813
Additions to deferred exploration and development costs		**(1,731)**	(2,458)
Additions to investments and advances		**(65,165)**	(55,926)
Additions to intangible assets		**(74,478)**	(47,100)
Increase in other noncurrent assets		**(367,003)**	(3,862,869)
Additions to property, plant and equipment	*9*	**(11,425,787)**	(3,600,201)
Net cash flows used in investing activities		**(11,934,164)**	(7,566,741)

Forward

	Note	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior perpetual capital securities	*14, 21*	**P30,172,601**	P25,802,615
Proceeds from short-term borrowings	*21*	**4,031,400**	2,333,250
Proceeds from long-term debts	*12, 21*	**2,179,240**	31,824,200
Payments of stock issuance costs		**(141,622)**	(606)
Distributions paid to undated subordinated capital securities holders	*14*	**(735,220)**	(1,594,455)
Distributions paid to redeemable perpetual securities holder	*14*	**(1,024,664)**	(1,057,875)
Payments of long-term debts	*12, 21*	**(2,892,145)**	(10,086,506)
Distributions paid to senior perpetual capital securities holders	*14*	**(2,962,962)**	-
Payments of short-term borrowings	*21*	**(4,529,700)**	(8,590,050)
Payments of lease liabilities	*6, 21*	**(11,255,306)**	(9,579,456)
Net cash flows provided by financing activities		**12,841,622**	29,051,117
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(1,027,063)**	(335,318)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**13,040,937**	34,579,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**79,954,187**	28,511,862
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*7*	**P92,995,124**	P63,091,240

See Selected Notes to the Condensed Consolidated Interim Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, lease, develop and dispose of all properties of every kind and description, and shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying condensed consolidated interim financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc.

2. Basis of Preparation

Statement of Compliance

The accompanying condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting,* and should be read in conjunction with the Group's last annual audited consolidated financial statements as at and for the year ended December 31, 2019. They do not include all the information required for a complete set of Philippine Financial Reporting Standards (PFRS) financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual audited consolidated financial statements.

The condensed consolidated interim financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on July 29, 2020.

Basis of Measurement

The condensed consolidated interim financial statements of the Group have been prepared on a historical cost basis, except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Defined benefit retirement liability	Present value of the defined benefit retirement obligation

Functional and Presentation Currency

The condensed consolidated interim financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The condensed consolidated interim financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership	
	June 30 2020	December 31 2019
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Corp. (SPDC)	**100**	100
SMC PowerGen Inc. (SPI)	**100**	100
SMC Consolidated Power Corporation (SCPC) [(a)]	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(b)]	**100**	100
Central Luzon Premiere Power Corp. (CLPPC)	**100**	100
Lumiere Energy Technologies Inc. (formerly Limay Premiere Power Corp. [LPPC]) [(c)]	**100**	100
PowerOne Ventures Energy Inc. (PVEI) [(d)]	**100**	100
Prime Electric Generation Corporation	**100**	100
Oceantech Power Generation Corporation	**100**	100
Masinloc Power Partners Co. Ltd. (MPPCL) [(e)] [(f)]	**100**	100
Masinloc Energy Resources Inc.	**100**	100
Power Ventures Generation Corporation	**100**	100
TopGen Energy Development Inc.	**100**	100
Universal Power Solutions, Inc. (formerly Limay Power Generation Corporation [LPGC]) [(g)]	**100**	100
Mariveles Power Generation Corporation (MPGC) [(h)]	**90**	90
Everest Power Development Corporation [(i)]	**100**	100
SMC Global Light and Power Corp. [(i)]	**100**	100
Prestige Power Resources Inc. [(i)]	**100**	100
Reliance Energy Development Inc. [(i)]	**100**	100
Ascend Power Resources Inc. [(i)]	**100**	100
Converge Power Generation Corp. [(i)]	**100**	100
EnergyCore Resources Inc. [(i)]	**100**	100
Strategic Energy Development Inc. [(i)]	**100**	100
Excellent Energy Resources Inc. [(i)]	**100**	100
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp.	**100**	100
SMC Power Generation Corp. (SPGC) [(j)]	**100**	100

Forward

	Percentage of Ownership	
	June 30 2020	December 31 2019
Coal Mining		
Daguma Agro-Minerals, Inc. [(k)]	**100**	100
Sultan Energy Phils. Corp. [(k)]	**100**	100
Bonanza Energy Resources, Inc. [(k)]	**100**	100
Others		
Mantech Power Dynamics Services Inc.	**100**	100
Safetech Power Services Corp.	**100**	100
Ondarre Holding Corporation	**100**	100
Grand Planters International, Inc.	**100**	100
Golden Quest Equity Holdings Inc. [(k)]	**100**	100
SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) [(e) (l)]	**100**	100
SMCGP Philippines Inc. (formerly AES Philippines, Inc. [API]) [(e)(m)]	**100**	100

(a) Owner of the 4 x 150 megawatts (MW) Circulating Fluidized Bed (CFB) coal-fired power plant in Limay, Bataan (Phase I and II Limay Greenfield Power Plant) (Note 9).
(b) Owner of the 2 x 150 MW CFB coal-fired power plant in Malita, Davao (Davao Greenfield Power Plant).
(c) On November 15, 2019, LPPC changed its name to Lumiere Energy Technologies Inc. (LETI).
(d) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation (KWPP) as joint ventures.
(e) Acquired in March 2018.
(f) Indirectly owned by the Parent Company, through its wholly-owned subsidiary SMCGP Masin Pte. Ltd. (formerly Masin-AES Pte. Ltd. [MAPL]), and owner of the Masinloc Power Plant.
(g) On September 24, 2019, LPGC changed its name to Universal Power Solutions, Inc. (UPSI).
(h) The Parent Company subscribed the remaining unissued common shares of MPGC in January and September 2019, thereby increasing its ownership interest from 49% to 89.5% as at December 31, 2019. Non-controlling interests represent the 10.1% and 0.4% held by Meralco PowerGen Corporation and by Zygnet Prime Holdings, Inc., respectively. It has not yet started commercial operations as at June 30, 2020.
(i) Incorporated in 2019 and have not yet started commercial operations as at June 30, 2020.
(j) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc., (OEDC) as an associate.
(k) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as at June 30, 2020.
(l) On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. and SMCGP Transpower Pte. Ltd., respectively.
(m) On May 22, 2018, API changed its name to SMCGP Philippines Inc.

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the condensed consolidated interim financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the condensed consolidated interim financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the condensed consolidated interim statements of income, condensed consolidated interim statements of comprehensive income and within equity in the condensed consolidated interim statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in MPGC as at June 30, 2020.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the condensed consolidated interim statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Summary of Significant Accounting and Financial Reporting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2019. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending December 31, 2020.

Adoption of Amended Standards and Framework
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards and framework as part of PFRS.

Amended Standards and Framework Adopted in 2020

The Group has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas:

- Amendments to References to Conceptual Framework in PFRS set out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies*, *Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Interest Rate Benchmark Reform *(*Amendments to PFRS 9*, Financial Instruments,* PAS 39*, Financial Instruments: Recognition and Measurement* and PFRS 7*, Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

    - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

    - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

    - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

    - *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

    An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

    Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

Except as otherwise indicated, the adoption of the amended standards and framework did not have a material effect on the condensed consolidated interim financial statements.

Amended Standards Not Yet Adopted

A number of amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the condensed consolidated interim financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the condensed consolidated interim financial statements.

Deferral of the local implementation of Amendments to PFRS 10*, Consolidated Financial Statements,* and PAS 28, *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the IASB has completed 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.

Financial Instruments

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the condensed consolidated interim statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

The Group classifies its financial assets, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operations of those policies in practice;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how employees of the business are compensated; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;

- terms that may adjust the contractual coupon rate, including variable rate features;

- prepayment and extension features; and

- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial assets acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the condensed consolidated interim statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and restricted cash are included under this category.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the condensed consolidated interim statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the condensed consolidated interim statements of changes in equity are transferred to and recognized in the condensed consolidated interim statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the condensed consolidated interim statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the condensed consolidated interim statements of changes in equity are never reclassified to the condensed consolidated interim statements of income.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. These include derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the condensed consolidated interim statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the condensed consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the condensed consolidated interim statements of income. Any dividend income from investment in equity instrument is recognized in the condensed consolidated interim statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge are classified under this category.

Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the condensed consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the condensed consolidated interim statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of income.

The Group's derivative liabilities that are not classified as cash flow hedge are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in “Interest expense and other financing charges” account in the condensed consolidated interim statements of income. Gains and losses are recognized in the condensed consolidated interim statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the condensed consolidated interim statements of income.

The Group’s liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the condensed consolidated interim statements of income.

Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether financial assets at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the condensed consolidated interim statements of income.

Classification of Financial Instruments between Liability and Equity
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the condensed consolidated interim statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of user:

- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset; and

- the Group has the right to direct the use of the identified asset.

Group as Lessee
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term as follows:

	Number of Years
Land	5 - 28
Buildings and improvements	2 - 5
Powerplants	29 - 43

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

Group as Lessor
The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15, *Revenue from Contracts with Customers,* to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

4. Use of Judgments, Estimates and Assumptions

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2019.

5. Segment Information

Operating Segments

The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's chief operating decision maker in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the condensed consolidated interim financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the preparatory stage of mining activities.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, right-of-use assets, net of allowances, accumulated depreciation and amortization, and impairment, deferred exploration and development costs, and other noncurrent assets. Segment liabilities include all operating liabilities and consist primarily of loans payable, accounts payable and accrued expenses, lease liabilities, and other noncurrent liabilities. Segment assets and liabilities do not include deferred taxes. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P24,624,432 and P34,328,329 for the periods ended June 30, 2020 and 2019, respectively, represents more than 10% of the Group's total revenues.

For management reporting purposes, the Group's operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

	For the Periods Ended June 30											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2020 (Unaudited)	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)	**2020 (Unaudited)**	2019 (Unaudited)
Revenues												
External	**P47,577,486**	P60,953,530	**P9,541,277**	P11,557,126	**P -**	P -	**P57,786**	P -	**P -**	P -	**P57,176,549**	P72,510,656
Inter-segment	**12,664,174**	11,617,481	**82,611**	130,156	**-**	-	**376,955**	319,149	**(13,123,740)**	(12,066,786)	**-**	-
	60,241,660	72,571,011	**9,623,888**	11,687,282	**-**	-	**434,741**	319,149	**(13,123,740)**	(12,066,786)	**57,176,549**	72,510,656
Costs and Expenses												
Cost of power sold	**40,198,404**	52,207,047	**8,903,604**	11,165,961	**-**		**57,752**	-	**(12,966,340)**	(13,146,446)	**36,193,420**	50,226,562
Selling and administrative expenses	**2,621,463**	3,406,432	**319,260**	231,923	**3,851**	4,048	**915,764**	1,215,595	**(997,330)**	(958,374)	**2,863,008**	3,899,624
	42,819,867	55,613,479	**9,222,864**	11,397,884	**3,851**	4,048	**973,516**	1,215,595	**(13,963,670)**	(14,104,820)	**39,056,428**	54,126,186
Segment Result	**17,421,793**	16,957,532	**401,024**	289,398	**(3,851)**	(4,048)	**(538,775)**	(896,446)	**839,930**	2,038,034	**18,120,121**	18,384,470
Interest income	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**726,824**	668,699
Equity in net losses of an associate and joint ventures - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(393,722)**	(22,003)
Interest expense and other financing charges	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(9,368,321)**	(10,304,169)
Other income - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**4,059,233**	2,220,172
Income tax expense	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(4,081,005)**	(3,684,491)
Consolidated Net Income	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P9,063,130**	P7,262,678

	As at and For the Periods Ended											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)
Other Information												
Segment assets	**P427,349,854**	P396,965,856	**P10,959,792**	P9,738,510	**P730,450**	P729,077	**P89,071,146**	P77,913,941	**(P25,431,549)**	(P13,129,176)	**P502,679,693**	P472,218,208
Investments and advances - net	**9,559,632**	9,965,329	**218,105**	206,173	**-**	-	**246,537,310**	225,919,162	**(245,642,993)**	(225,089,904)	**10,672,054**	11,000,760
Goodwill and other intangible assets - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**72,795,283**	72,771,271
Deferred tax assets	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**965,735**	1,128,754
Consolidated Total Assets	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P587,112,765**	P557,118,993
Segment liabilities	**P184,669,147**	P176,866,267	**P8,273,466**	P7,821,056	**P822,880**	P817,667	**P5,141,981**	P5,612,127	**(P40,856,290)**	(P27,634,355)	**P158,051,184**	P163,482,762
Long-term debt - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**225,211,523**	226,799,041
Income tax payable	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**438,235**	214,776
Deferred tax liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**16,079,453**	13,197,658
Consolidated Total Liabilities	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P399,780,395**	P403,694,237
Capital expenditures	**P11,418,416**	P8,164,696	**P -**	P -	**P -**	P -	**P7,371**	P1,952,791	**P -**	P -	**P11,425,787**	P10,117,487
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	**5,056,259**	8,913,348	**71,485**	935,391	**5**	39	**35,651**	71,384	**(13,669)**	(2,506)	**5,149,731**	9,917,656
Noncash items other than depreciation and amortization	**(1,035,257)**	(2,684,309)	**(11,899)**	9,261	**2**	5	**380,717**	(955,997)	**99,097**	-	**(567,340)**	(3,631,040)

**Noncash items other than depreciation and amortization include unrealized foreign exchange losses/(gains), retirement cost (benefit), equity in net losses of an associate and joint ventures - net, impairment losses on trade and other receivables, property, plant and equipment, and others, and reversal of allowance on other receivables.*

6. Significant Agreements and Lease Commitments

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by Power Sector Assets and Liabilities Management Corporation (PSALM) for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of the National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P11,174,995 and P14,842,745 for the periods ended June 30, 2020 and 2019, respectively (Note 16). SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305 which will expire on November 3, 2020 and January 25, 2021, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 21).

The lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of income. Interest expense amounted to P3,195,385 and P3,779,529 for the periods ended June 30, 2020 and 2019, respectively.

Maturity analysis of lease payments as at June 30, 2020 and December 31, 2019 are disclosed in Note 19.

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of a 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water and Realty Services Corp., another subsidiary, acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P15,653.

The lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of income which amounted to P1,567 and P1,704 for the periods ended June 30, 2020 and 2019, respectively.

MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the condensed consolidated interim statements of financial position, amounted to P106,428 and P108,147 as at June 30, 2020 and December 31, 2019, respectively (Note 10).

Maturity analysis of lease payments as at June 30, 2020 and December 31, 2019 are disclosed in Note 19.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Cash in banks and on hand		**P43,467,514**	P38,249,680
Short-term investments		**49,527,610**	41,704,507
	19, 20	**P92,995,124**	P79,954,187

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P716,980 and P656,950 for the periods ended June 30, 2020 and 2019, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade		**P30,010,902**	P21,637,478
Non-trade		**8,719,709**	9,269,808
Amounts owed by related parties	*13*	**1,714,560**	1,910,647
		40,445,171	32,817,933
Less allowance for impairment losses		**2,793,710**	2,828,484
	19, 20	**P37,651,461**	P29,989,449

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day credit term or an agreed collection period. The balance of trade receivables is inclusive of VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses are as follows:

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of period		**P2,828,484**	P2,574,423
Impairment losses during the period		**37,976**	257,879
Cumulative translation adjustment		**(3,975)**	(3,818)
Reversal during the period	*17*	**(68,775)**	-
Balance at end of period		**P2,793,710**	P2,828,484

Impairment losses recognized in the condensed consolidated interim statements of income under "Selling and administrative expenses" account amounted to P37,976 and P120,695 for the periods ended June 30, 2020 and 2019, respectively.

9. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2020 and December 31, 2019

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2019 (Audited)	P100,459,290	P6,027,692	P2,682,860	P1,488,404	P39,312,593	P149,970,839
Additions	233,741	1,936,527	151,892	36,888	7,758,439	10,117,487
Reclassifications/disposals	6,464,182	3,996,250	184,118	254,517	(8,612,138)	2,286,929
Currency translation adjustments	(1,797,767)	(27,912)	(92,459)	(36,607)	(1,043,641)	(2,998,386)
December 31, 2019 (Audited)	105,359,446	11,932,557	2,926,411	1,743,202	37,415,253	159,376,869
Additions	557,868	66,654	291,611	48,713	10,460,941	11,425,787
Reclassifications	113,822	-	(43,969)	(4)	951,907	1,021,756
Currency translation adjustments	(750,106)	(31)	(37,803)	(15,171)	(470,977)	(1,274,088)
June 30, 2020 (Unaudited)	**105,281,030**	**11,999,180**	**3,136,250**	**1,776,740**	**48,357,124**	**170,550,324**
Accumulated Depreciation and Amortization						
January 1, 2019 (Audited)	4,328,909	152,314	587,089	47,858	-	5,116,170
Depreciation and amortization	4,261,418	117,065	142,049	66,756	-	4,587,288
Reclassifications/retirements	175,935	-	(158,048)	-	-	17,887
Currency translation adjustments	(735,867)	(17)	(50,767)	(4,259)	-	(790,910)
December 31, 2019 (Audited)	8,030,395	269,362	520,323	110,355	-	8,930,435
Depreciation and amortization	2,268,382	85,245	86,981	36,711	-	2,477,319
Reclassifications	276	-	9,914	-	-	10,190
Currency translation adjustments	(336,842)	(13)	(11,878)	(2,163)	-	(350,896)
June 30, 2020 (Unaudited)	**9,962,211**	**354,594**	**605,340**	**144,903**	**-**	**11,067,048**
Accumulated Impairment Losses						
January 1, 2019 (Audited)	-	-	70,265	-	-	70,265
Impairment	-	-	35,084	-	-	35,084
Currency translation adjustments	-	-	(2,947)	-	-	(2,947)
December 31, 2019 (Audited)	-	-	102,402	-	-	102,402
Currency translation adjustments	-	-	(1,628)	-	-	(1,628)
June 30, 2020 (Unaudited)	**-**	**-**	**100,774**	**-**	**-**	**100,774**
Carrying Amount						
December 31, 2019 (Audited)	P97,329,051	P11,663,195	P2,303,686	P1,632,847	P37,415,253	P150,344,032
June 30, 2020 (Unaudited)	**P95,318,819**	**P11,644,586**	**P2,430,136**	**P1,631,837**	**P48,357,124**	**P159,382,502**

June 30, 2019

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2019 (Audited)	P100,459,290	P6,027,692	P2,682,860	P1,488,404	P39,312,593	P149,970,839
Additions	44,334	267	25,808	29,477	3,500,315	3,600,201
Reclassifications/disposals	29,770	30,425	163,149	-	608,925	832,269
Currency translation adjustments	(1,237,678)	(878)	(63,501)	(25,180)	(698,858)	(2,026,095)
June 30, 2019 (Unaudited)	99,295,716	6,057,506	2,808,316	1,492,701	42,722,975	152,377,214
Accumulated Depreciation and Amortization						
January 1, 2019 (Audited)	4,328,909	152,314	587,089	47,858	-	5,116,170
Depreciation and amortization	1,262,406	53,810	864,848	26,577	-	2,207,641
Disposals	-	-	(2,191)	-	-	(2,191)
Currency translation adjustments	(493,923)	(9)	(38,145)	(2,761)	-	(534,838)
June 30, 2019 (Unaudited)	5,097,392	206,115	1,411,601	71,674	-	6,786,782
Accumulated Impairment Losses						
January 1, 2019 (Audited)	-	-	70,265	-	-	70,265
Currency translation adjustments	-	-	(1,784)	-	-	(1,784)
June 30, 2019 (Unaudited)	-	-	68,481	-	-	68,481
Carrying Amount						
June 30, 2019 (Unaudited)	P94,198,324	P5,851,391	P1,328,234	P1,421,027	P42,722,975	P145,521,951

a. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.

b. Capital projects in progress (CPIP) pertains to the following:

   i. Projects of SCPC for the construction of Limay Greenfield Power Plant.

      Following the completion of Unit 4 of the 4 x 150 MW Limay Greenfield Power Plant and the Energy Regulatory Commission (ERC) grant of a Provisional Authority to Operate in favor of SCPC for the 4 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

      The Unit 4 started its commercial operations on July 26, 2019.

   ii. Plant optimization and pumped-storage hydropower projects of SPDC.

   iii. Expenditures for the 500 kilovolts connection facilities in relation to the 600 MW Pagbilao power plant project of CLPPC.

   iv. Ongoing construction of the Unit 3, Masinloc Power Plant of MPPCL and the 2 x 20 MW battery energy storage facility of SMCGP Philippines Energy Co. Ltd., another subsidiary.

   v. Expenditures of MPGC related to the development of its power plant project to be constructed in Mariveles, Bataan.

   vi. Project of SMEC for the installation of roller press and rotary separators of the Sual Power Plant.

   vii. Project of UPSI for the construction of battery energy storage systems (BESS) facilities situated in various locations in the country.

c. Depreciation and amortization related to property, plant and equipment are recognized in the condensed consolidated interim statements of income as follows:

		June 30	
	Note	**2020 (Unaudited)**	2019 (Unaudited)
Cost of power sold	*16*	**P2,365,125**	P2,106,395
Selling and administrative expenses		**112,194**	101,246
		P2,477,319	P2,207,641

Total depreciation and amortization recognized in the condensed consolidated interim statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P62,180 and P35,774 for the periods ended June 30, 2020 and 2019, respectively. No impairment loss was recognized for periods ended June 30, 2020 and 2019.

The Group has borrowing costs amounting to P1,015,694 and P2,360,582 which were capitalized for the period ended June 30, 2020 and for the year ended December 31, 2019, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 7.75% to 11.74% and 6.28% to 9.09% as at June 30, 2020 and December 31, 2019, respectively. The unamortized capitalized borrowing costs amounted to P6,261,003 and P5,990,728 as at June 30, 2020 and December 31, 2019, respectively (Note 12).

10. Right-of-Use Assets

The movements in right-of-use assets are as follows:

	Land	Buildings and Improvements	Power Plants	Total
Cost				
Adjustment due to adoption of PFRS 16	P1,347,957	P80,650	P167,387,089	P168,815,696
Additions	2,997,209	9,800	-	3,007,009
Reclassifications	(14,230)	-	-	(14,230)
Currency translation adjustments	(4,701)	-	-	(4,701)
December 31, 2019 (Audited)	4,326,235	90,450	167,387,089	171,803,774
Additions	1,406,030	-	-	1,406,030
Reclassifications	14,488	-	-	14,488
Currency translation adjustments	(1,719)	-	-	(1,719)
June 30, 2020 (Unaudited)	**5,745,034**	**90,450**	**167,387,089**	**173,222,573**
Accumulated Depreciation and Amortization				
Additions	52,189	36,713	5,186,403	5,275,305
Reclassifications	11,173	-	-	11,173
December 31, 2019 (Audited)	63,362	36,713	5,186,403	5,286,478
Additions	29,613	18,403	2,593,201	2,641,217
Reclassifications	74,537	-	-	74,537
June 30, 2020 (Unaudited)	**167,512**	**55,116**	**7,779,604**	**8,002,232**
Carrying Amount				
December 31, 2019 (Audited)	P4,262,873	P53,737	P162,200,686	P166,517,296
June 30, 2020 (Unaudited)	**P5,577,522**	**P35,334**	**P159,607,485**	**P165,220,341**

The carrying amount of the IPPA's power plants under lease arrangements amounted to P159,607,485 and P162,200,686 as at June 30, 2020 and December 31, 2019, respectively (Note 6). The carrying amount of MPPCL's land under lease arrangement amounted to P106,428 and P108,147 as at June 30, 2020 and December 31, 2019, respectively (Note 6).

The combined asset retirement costs of SCPC, SMCPC and MPPCL amounted to P459,492 and P469,543 as at June 30, 2020 and December 31, 2019, respectively. In 2019, total adjustments due to remeasurements made on asset retirement costs amounted to P81,055.

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)
Trade		**P15,002,477**	P16,577,635
Non-trade		**14,390,843**	9,364,145
Output VAT		**9,047,268**	7,210,413
Accrued interest	*6, 12*	**1,266,017**	1,338,520
Amounts owed to related parties	*13*	**533,120**	523,317
Withholding and other accrued taxes		**301,207**	323,355
Premium on option liabilities		**40,046**	46,871
Derivative liabilities not designated as cash flow hedge	*20*	**77,595**	18,636
	19, 20	**P40,658,573**	P35,402,892

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Non-trade payables include liability relating to power rate adjustments, payables to contractors, concession payables and other payables to the Government excluding output VAT and withholding taxes.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 8).

The methods and assumptions used to estimate the fair values of financial liabilities are discussed in Note 20.

12. Long-term Debt

Long-term debt consists of:

	Note	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Bonds			
Parent Company			
Peso-denominated:			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (a)		**P29,712,855**	P29,669,514
Fixed interest rate of 6.7500% maturing in 2023 (b)		**14,871,727**	14,853,800
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (c)		**19,861,636**	19,844,789
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)		**14,927,225**	14,914,240
		79,373,443	79,282,343
Term Loans			
Parent Company			
Peso-denominated:			
Fixed interest rate of 6.9265%, with maturities up to 2024 (e)		**14,532,178**	14,596,547
Foreign currency-denominated:			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (f)		**34,464,126**	34,924,385
Subsidiaries			
Peso-denominated:			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (g)		**40,788,470**	41,273,836
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (h)		**19,040,752**	19,669,115
Foreign currency-denominated:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (i) (j)		**27,819,338**	27,835,019
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (i) (j)		**9,193,216**	9,217,796
		145,838,080	147,516,698
	19, 20	**225,211,523**	226,799,041
Less: Current maturities		**16,712,773**	6,036,174
		P208,498,750	P220,762,867

a. The amount represents the first tranche of the Parent Company's P60,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P30,000,000, was issued and listed on the Philippine Dealing and Exchange Corp. (PDEx) for trading on April 24, 2019 at the issue price of 100% of face value.

   It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series H Bonds	3 years, due 2022	6.8350%
Series I Bonds	5 years, due 2024	7.1783%
Series J Bonds	7 years, due 2026	7.6000%

   Interest on the Bonds shall be payable quarterly in arrears every April 24, July 24, October 24 and January 24 of each year starting July 24, 2019, as the first interest payment date.

   The proceeds were used by the Parent Company for partial refinancing of existing loan obligations and/or re-denomination of US dollar-denominated obligations (remaining US$150,000 term loan, used for Masinloc acquisition, and US$120,000 short-term loan), investments in power-related assets and for payment of transaction-related fees, costs and expenses.

   Unamortized debt issue costs amounted to P287,145 and P330,486 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P329,777 and P333,971 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P1,061,647 and P403,307 for the periods ended June 30, 2020 and 2019, respectively.

b. The amount represents the second tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration (the "Series G" Bonds). The Series G Bonds, with an aggregate principal amount of P15,000,000, were issued and listed on the PDEx for trading on August 17, 2018 at the issue price of 100% of face value with a 5-year term, due 2023, and interest rate of 6.75%.

   Interest on the Series G Bonds shall be payable quarterly in arrears every February 17, May 17, August 17 and November 17 of each year starting November 17, 2018, as the first interest payment date.

   The proceeds were used by the Parent Company to refinance its outstanding shareholder advances, to partially refinance the US$500,000, 5-year term loan obtained in March 2018 and for payment of transaction-related expenses.

   Unamortized debt issue costs amounted to P128,273 and P146,200 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P101,261 and P101,260 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P506,250 and P509,063 for the periods ended June 30, 2020 and 2019, respectively.

c. The amount represents the first tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P20,000,000, was issued and listed on the PDEx for trading on December 22, 2017 at the issue price of 100% of face value.

It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series D Bonds	5 years, due 2022	5.3750%
Series E Bonds	7 years, due 2024	6.2500%
Series F Bonds	10 years, due 2027	6.6250%

Interest on the Bonds shall be payable quarterly in arrears every March 22, June 22, September 22 and December 22 of each year starting March 22, 2018, as the first interest payment date.

Proceeds from the issuance were used by the Parent Company to refinance its P20,000,000 short-term loans obtained from local banks.

Unamortized debt issue costs amounted to P138,364 and P155,211 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P21,284 and P23,945 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P585,129 and P591,667 for the periods ended June 30, 2020 and 2019, respectively.

d. The amount represents the Parent Company's fixed rate bonds issued with an aggregate amount of P15,000,000. The Bonds were issued and listed on the PDEx on July 11, 2016 at the issue price of 100% of face value in three series with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series A Bonds	5 years, due 2021	4.3458%
Series B Bonds	7 years, due 2023	4.7575%
Series C Bonds	10 years, due 2026	5.1792%

Interest is payable quarterly in arrears every January 11, April 11, July 11 and October 11 of each year starting October 11, 2016, as the first interest payment date.

The net proceeds were used on July 25, 2016 to refinance the US$300,000 short-term loan provided by a local bank of which the proceeds were used for the redemption of the US$300,000 bond in January 2016.

Unamortized debt issue costs amounted to P72,775 and P85,760 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P136,527 and P138,222 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P352,207 and P356,142 for the periods ended June 30, 2020 and 2019, respectively.

e. The amount represents the remaining balance of a P15,000,000, fixed rate 7-year Term Loan Facility, availed by the Parent Company on April 26, 2017 from a local bank. Interest is payable quarterly in arrears on the last day of the agreed interest period. Principal repayment shall be in 14 semi-annual installments starting at the end of the first year from drawdown date. The proceeds were used to fund the payment of the remaining US$300,000 out of the US$700,000 term loan.

Unamortized debt issue costs amounted to P92,822 and P103,453 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P179,245 and P182,936 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P513,816 and P516,212 for the periods ended June 30, 2020 and 2019, respectively.

f. The amount represents the US$700,000 floating interest term loan availed by the Parent Company from a syndicate of foreign banks on March 16, 2018. The US$700,000 is divided into Facility A Loan amounting to US$200,000 maturing on March 12, 2021 and Facility B Loan amounting to US$500,000 maturing on March 13, 2023. The proceeds were used by the Parent Company to partially finance the acquisition of the Masinloc Group.

   Unamortized debt issue costs amounted to P416,874 and P520,115 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to nil and P11,922 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P480,496 and P799,835 for the periods ended June 30, 2020 and 2019, respectively.

g. The amount represents the remaining balance of the P42,000,000 and P2,000,000 drawn by SCPC on June 28, 2017 and January 31, 2018, respectively, from a P44,000,000, 12-year Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks dated June 22, 2017. The proceeds were used mainly by SCPC for the following purposes:

   i. the settlement of the US$360,000 short-term loan availed on May 8, 2017 from a local bank;

   ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant, under construction, from LETI; and

   iii. the repayment of advances from the Parent Company.

   Unamortized debt issue costs amounted to P586,530 and P626,164 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P6,316 and P25,575 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P1,364,773 and P1,390,286 for the periods ended June 30, 2020 and 2019, respectively (inclusive of P382,207 capitalized in CPIP in 2019).

h. The amount represents the remaining balance of the P20,322,000 and P978,000 drawn by SMCPC in tranches on August 17, 2018 and July 31, 2019, respectively, from its P21,300,000, 12-year OLSA with a syndicate of local banks signed on August 9, 2018. The loan is payable in 47 quarterly installments up to August 2030. The proceeds were used mainly by SMCPC for the following purposes:

   i. the repayment in full of the P5,930,000 short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant;

   ii. the partial financing of the remaining works for the project;

   iii. the repayment of advances from the Parent Company; and

   iv. the payment of transaction-related fees and expenses.

Unamortized debt issue costs amounted to P315,410 and P334,993 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest amounted to P154,737 and P159,917 as at June 30, 2020 and December 31, 2019, respectively. Interest expense amounted to P765,880 and P780,286 (inclusive of P18,216 and P11,428 capitalized in CPIP) for the periods ended June 30, 2020 and 2019, respectively.

i. The amount represents the US$238,000 total outstanding loan drawn in tranches by MPPCL from its Omnibus Refinancing Agreement (ORA), dated December 28, 2012, with local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL on August 22, 2007. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to January 23, 2023.

   Unamortized debt issue costs pertaining to fixed and floating interest tranches amounted to P10,879 and P3,626, and P15,167 and P5,055 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest pertaining to fixed and floating interest tranches amounted to P72,005 and P15,634, and P80,992 and P23,676, as at June 30, 2020 and December 31, 2019, respectively. Interest expense on fixed and floating interest tranches amounted to P257,972 and P68,073 (inclusive of P191,376 and P50,500 capitalized in CPIP, respectively) and P320,041 and P96,906 (inclusive of P137,867 and P45,956 capitalized in CPIP, respectively) for the periods ended June 30, 2020 and 2019, respectively.

j. The amount represents the balance drawn in tranches by MPPCL from its US$525,000 Omnibus Expansion Financing Agreement (OEFA) dated December 1, 2015, with local banks, to finance the construction of the additional 335 MW (gross) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 15, 2030.

   MPPCL drew US$43,000 (equivalent to P2,179,240) and made a principal repayment amounting to US$11,423 (equivalent to P578,803) in March 2020 and in April 2020, respectively.

   Unamortized debt issue costs pertaining to fixed and floating interest tranches amounted to P302,456 and P99,542, and P338,757 and P96,487 as at June 30, 2020 and December 31, 2019, respectively. Accrued interest pertaining to fixed and floating interest tranches amounted to P182,415 and P32,185, and P171,354 and P39,495, as at June 30, 2020 and December 31, 2019, respectively. Interest expense on fixed and floating interest tranches amounted to P600,272 and P124,461 (all were capitalized in CPIP) and P553,014 and P141,314 (inclusive of P218,179 and P72,727 capitalized in CPIP, respectively) for the periods ended June 30, 2020 and 2019, respectively.

Valuation Technique for Peso-denominated Bonds
The market value was determined using the market comparison technique. The fair values are based on PDEx. The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P90,521,080 and P86,716,963 as at June 30, 2020 and December 31, 2019, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

The debt agreements of the Parent Company, SCPC, SMCPC and MPPCL impose a number of covenants including, but not limited to, maintenance of certain financial ratios throughout the duration of the term of the debt agreements. The terms and conditions of the debt agreements also contain negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries, SCPC, SMCPC and MPPCL to create or have outstanding any security interest upon or with respect to any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries, SCPC, SMCPC and MPPCL to secure any indebtedness, subject to certain exceptions.

The loans of SCPC and SMCPC are secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC and SMCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCPC. The loans of MPPCL obtained from its ORA and OEFA are secured by real estate and chattel mortgages on all present assets (purchased under its asset purchase agreement, and all its rights in a land lease agreement, with PSALM) and all future assets as defined in its loan agreements.

As at June 30, 2020 and December 31, 2019, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of period	**P2,757,848**	P2,992,252
Additions	**1,200**	549,248
Currency translation adjustments	**(6,775)**	(18,272)
Capitalized amount	**(30,836)**	(46,464)
Amortization	**(266,741)**	(718,916)
Balance at end of period	**P2,454,696**	P2,757,848

<u>Repayment Schedule</u>
The annual maturities of the long-term debt as at June 30, 2020 are as follows:

	Gross Amount				
Year	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Debt Issue Costs**	**Net**
July 1, 2020 to June 30, 2021	US$269,800	P13,444,134	P3,520,892	P252,253	P16,712,773
July 1, 2021 to June 30, 2022	73,410	3,658,020	23,854,428	322,988	27,189,460
July 1, 2022 to June 30, 2023	678,212	33,795,329	13,999,704	610,549	47,184,484
July 1, 2023 to June 30, 2024	31,185	1,553,948	46,748,224	419,965	47,882,207
July 1, 2024 to June 30, 2025	32,655	1,627,199	11,042,764	192,407	12,477,556
July 1, 2025 to thereafter	365,873	18,231,427	56,190,150	656,534	73,765,043
	US$1,451,135	**P72,310,057**	**P155,356,162**	**P2,454,696**	**P225,211,523**

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 19.

13. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at June 30, 2020 (Unaudited) and December 31, 2019 (Audited):

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	**2020**	**P184,499**	**P351,201**	**P151,378**	**P140,465**	On demand or 30 days;	Unsecured;
	2019	453,498	777,521	135,865	74,397	non-interest bearing	no impairment
	2020	**-**	**-**	**-**	**-**	1 year; non-	Unsecured;
	2019	-	-	676	-	interest bearing	no impairment
Entities under Common Control	**2020**	**1,293,307**	**398,749**	**694,374**	**4,424,127**	On demand or 30 days;	Unsecured;
	2019	3,036,199	1,667,408	633,217	4,294,378	non-interest bearing	no impairment
	2020	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured
	2019	-	-	-	492	non-interest bearing	
Associates	**2020**	**590,093**	**-**	**455,016**	**29,081**	On demand or 30 days;	Unsecured;
	2019	1,253,058	9,416	369,603	29,813	non-interest bearing	no impairment
	2020	**6,422**	**-**	**204,503**	**-**	9 years;	Unsecured;
	2019	13,624	-	213,753	-	interest bearing	no impairment
Joint Venture	**2020**	**15,152**	**85,840**	**11,140**	**36,552**	30 days;	Unsecured;
	2019	30,281	312,233	2,472	-	non-interest bearing	no impairment
	2020	**2,624**	**-**	**132,806**	**-**	92 days;	Unsecured;
	2019	5,367	-	132,402	-	interest bearing	no impairment
Associates of Entities under Common Control	**2020**	**363,237**	**-**	**152,811**	**1,150**	30 days;	Unsecured;
	2019	933,917	-	199,301	1,150	non-interest bearing	no impairment
Others	**2020**	**608,549**	**-**	**110,150**	**51,458**	On demand or 30 days;	Unsecured;
	2019	2,238,738	-	400,859	51,458	non-interest bearing	no impairment
	2020	**P3,063,883**	**P835,790**	**P1,912,178**	**P4,683,325**		
	2019	P7,964,682	P2,766,578	P2,088,148	P4,451,688		

a. Amounts owed by related parties consist of trade and other receivables, derivative asset and security deposits (Note 8).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC (Note 11).

c. Amounts owed by associates mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the condensed consolidated interim statements of financial position (Notes 8).

d. Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" account in the condensed consolidated interim statements of financial position. (Notes 8 and 17).

e. The compensation of key management personnel of the Group, by benefit type, follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Short-term employee benefits	**P57,258**	P113,813
Retirement cost	**-**	4,171
	P57,258	P117,984

14. Distributions

Distributions to Undated Subordinated Capital Securities (USCS) Holders

The Parent Company issued and listed on the Singapore Exchange Securities Trading Limited (SGX-ST) the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US$600,000	**P26,933,565**

Amount in Philippine Peso pertains to proceeds net of directly attributable transaction costs.

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

On November 7, 2019 (the "Step-Up Date"), the Parent Company completed the redemption of the US$300,000 USCS, issued on May 7, 2014, pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US$300,000 USCS, dated September 27, 2019. The redemption price of the US$300,000 USCS includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The US$300,000 USCS was redeemed using in part the proceeds of the US$500,000 Senior Perpetual Capital Securities (SPCS) issued on April 25, 2019.

Details of distributions paid to USCS holders are as follows:

	June 30	
	2020 (Unaudited)	2019 (Unaudited)
February	**P735,220**	P757,133
May	**-**	837,322
	P735,220	P1,594,455

Distributions to Redeemable Perpetual Securities (RPS) Holder
On March 16, 2018, the Parent Company issued the RPS at an issue price of 100% amounting to US$650,000 (equivalent to P32,751,570, net of issuance costs) in favor of SMC, the Security Holder.

The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. The Security Holder shall have the right to receive distribution at the rate of 6.25% per annum, payable quarterly in arrears every March 16, June 16, September 16 and December 16 of each year commencing on June 16, 2018. The Parent Company has a right to defer this distribution under certain conditions.

The proceeds were used to partially finance the acquisition of the Masinloc Group by the Parent Company in March 2018.

Details of distributions paid to RPS holder are as follows:

	June 30	
	2020 (Unaudited)	2019 (Unaudited)
March	**P513,703**	P530,512
June	**510,961**	527,363
	P1,024,664	P1,057,875

Distributions to SPCS Holders
The Parent Company issued and listed on the SGX-ST the following SPCS:

Date of Issuance	**Distribution Payment Date**	**Initial Rate of Distribution**	**Step-Up Date**	**Issue Price**	**Amount of SPCS Issued**	**Amount in Philippine Peso***
January 21, 2020	January 21 and July 21 of each year	5.70% per annum	January 21, 2026	100.000%	US$600,000	P30,170,607
November 5, 2019	May 5 and November 5 of each year	5.95% per annum	May 5, 2025	100.000%	500,000	24,836,690
July 3, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	102.052%	300,000	15,440,347
April 25, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	100.000%	500,000	25,610,522
					US$1,900,000	**P96,058,166**

**Pertains to proceeds net of directly attributable transaction costs.*

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of the Parent Company with no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on Step-Up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds were used by the Parent Company for the redemption of the US$300,000 USCS in November 2019 and will be applied for the repayment of indebtedness, for general corporate purposes, including capital expenditures and investments in power-related assets and for the development of BESS projects.

In April and May 2020, the Parent Company paid cash distributions amounting to P1,882,400 and P1,080,562, respectively, to the holders of the SPCS.

15. Revenues

Revenues consist of:

		June 30	
	Note	**2020 (Unaudited)**	2019 (Unaudited)
Sale of power		**P47,577,486**	P60,953,530
Retail and other power-related services		**9,541,277**	11,557,126
Others		**57,786**	-
	13	**P57,176,549**	P72,510,656

16. Cost of Power Sold

Cost of power sold consist of:

		June 30	
	Note	**2020 (Unaudited)**	2019 (Unaudited)
Coal, fuel oil and other consumables	*13*	**P12,578,377**	P17,989,181
Energy fees	*6*	**11,174,995**	14,842,745
Power purchases		**5,533,623**	11,246,404
Depreciation and amortization	*9, 10*	**5,015,783**	4,748,732
Plant operations and maintenance, and other fees		**1,890,642**	1,399,500
		P36,193,420	P50,226,562

17. Other Income - net

Other income (charges) consist of:

		June 30	
	Note	**2020 (Unaudited)**	2019 (Unaudited)
Settlement from third party contractors		**P3,825,537**	P -
Foreign exchange gain - net	*19*	**232,146**	2,093,481
Reversal of allowance on other receivables	*8*	**68,775**	-
Construction revenue		**41,762**	46,951
Construction cost		**(41,762)**	(46,951)
Miscellaneous income (loss) - net	*13*	**(67,225)**	126,691
		P4,059,233	P2,220,172

In 2020, the Group received a settlement from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts.

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs pass through the profit or loss before it is capitalized as concession rights.

Miscellaneous income (loss) mostly pertain to marked-to-market gains (losses) on derivatives, PSALM monthly fees reduction, management fee and rental income.

18. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is computed as follows:

	June 30	
	2020 (Unaudited)	2019 (Unaudited)
Net income attributable to equity holders of the Parent Company	**P9,049,846**	P7,273,017
Distributions to USCS holders for the period	**(725,577)**	(1,579,192)
Distributions to RPS holder for the period	**(1,023,395)**	(1,056,191)
Distributions to SPCS holders for the period	**(3,959,610)**	(396,500)
Net income attributable to common shareholders of the Parent Company (a)	**3,341,264**	4,241,134
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/Diluted Earnings Per Share (a/b)	**P2.67**	P3.39

As at June 30, 2020 and 2019, the Parent Company has no dilutive debt or equity instruments.

19. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, restricted cash, noncurrent receivables, loans payable, long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group which are call spread swaps, currency forwards and commodity swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Philippine SEC and/or the PDEx.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2020 (Unaudited)	< 1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P3,520,892	P23,854,428	P13,999,704	P46,748,224	P11,042,764	P56,190,150	P155,356,162
Interest rate	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	6.2500% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated (expressed in Philippine peso)	2,611,715	2,746,779	6,663,766	1,169,161	1,224,274	13,716,978	28,132,673
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959%	5.5959%	5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	10,832,419	911,241	27,131,563	384,787	402,925	4,514,449	44,177,384
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P16,965,026	P27,512,448	P47,795,033	P48,302,172	P12,669,963	P74,421,577	P227,666,219

December 31, 2019 (Audited)	< 1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,955,892	P9,894,142	P27,729,564	P23,292,184	P34,259,804	P58,472,522	P156,604,108
Interest rate	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	6.2500% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated (expressed in Philippine peso)	2,467,402	2,637,690	1,891,416	6,708,224	1,116,430	13,367,781	28,188,943
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	818,871	11,002,285	626,288	27,549,098	367,459	4,399,837	44,763,838
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P6,242,165	P23,534,117	P30,247,268	P57,549,506	P35,743,693	P76,240,140	P229,556,889

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P147,258 and P447,638 for the period ended June 30, 2020 and for the year ended December 31, 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using derivative instruments such as foreign currency forwards to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) and long-term call spread swaps are entered into to manage foreign currency risks relating to foreign currency-denominated obligations and long-term borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

		June 30, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*7*	**US$1,438,606**	**P71,685,749**	US$1,194,851	P60,501,300
Trade and other receivables	*8*	**181,715**	**9,054,844**	168,231	8,518,354
Noncurrent receivables		**923**	**46,016**	-	-
		1,621,244	**80,786,609**	1,363,082	69,019,654
Liabilities					
Loans payable		**35,000**	**1,744,050**	45,000	2,278,575
Accounts payable and accrued expenses		**273,581**	**13,632,563**	187,444	9,491,242
Long-term debt (including current maturities)	*12*	**1,451,135**	**72,310,057**	1,440,758	72,952,781
Lease liabilities (including current portion)	*6*	**1,164,249**	**58,014,516**	1,281,646	64,896,116
Other noncurrent liabilities		**5,107**	**254,475**	6,026	305,132
		2,929,072	**145,955,661**	2,960,874	149,923,846
Net Foreign Currency-denominated Monetary Liabilities		**US$1,307,828**	**P65,169,052**	US$1,597,792	P80,904,192

The Group reported net gain on foreign exchange amounting to P232,146 and P2,093,481 for the periods ended June 30, 2020 and 2019, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 17).

These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2020	**49.83**
December 31, 2019	50.64
June 30, 2019	51.24
December 31, 2018	52.58

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
June 30, 2020 (Unaudited)	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	(P1,319,366)	(P1,042,797)	P1,319,366	P1,042,797
Trade and other receivables	(69,824)	(160,831)	69,824	160,831
Noncurrent receivables	-	(923)	-	923
	(1,389,190)	(1,204,551)	1,389,190	1,204,551
Loans payable	-	35,000	-	(35,000)
Accounts payable and accrued expenses	162,439	227,004	(162,439)	(227,004)
Long-term debt (including current maturities)	700,000	1,241,135	(700,000)	(1,241,135)
Lease liabilities (including current portion)	1,155,690	817,542	(1,155,690)	(817,542)
Other noncurrent liabilities	1,693	4,599	(1,693)	(4,599)
	2,019,822	2,325,280	(2,019,822)	(2,325,280)
	P630,632	P1,120,729	(P630,632)	(P1,120,729)

December 31, 2019 (Audited)	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,145,911)	(P851,078)	P1,145,911	P851,078
Trade and other receivables	(71,623)	(146,744)	71,623	146,744
	(1,217,534)	(997,822)	1,217,534	997,822
Loans payable	-	45,000	-	(45,000)
Accounts payable and accrued expenses	82,441	162,712	(82,441)	(162,712)
Long-term debt (including current maturities)	700,000	1,230,758	(700,000)	(1,230,758)
Lease liabilities (including current portion)	1,280,252	897,570	(1,280,252)	(897,570)
Other noncurrent liabilities	3,157	5,079	(3,157)	(5,079)
	2,065,850	2,341,119	(2,065,850)	(2,341,119)
	P848,316	P1,343,297	(P848,316)	(P1,343,297)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group, through SMC and the Parent Company, enters into commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

Commodity Swaps. Commodity swaps are used to manage the Group's exposures to volatility in prices of coal.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management:

June 30, 2020 (Unaudited)	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P92,995,124**	**P92,995,124**	**P92,995,124**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**37,080,132**	**37,080,132**	**37,080,132**	**-**	**-**	**-**
Derivative asset designated as a cash flow hedge (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**50,564**	**50,564**	**7,242**	**-**	**43,322**	**-**
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**538,346**	**538,346**	**48,166**	**132,924**	**71,125**	**286,131**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**8,150,752**	**8,150,752**	**3,150,310**	**3,856,600**	**20**	**1,143,822**
Financial Liabilities						
Loans payable	**1,744,050**	**1,760,522**	**1,760,522**	**-**	**-**	**-**
Accounts payable and accrued expenses*	**30,360,076**	**30,360,076**	**30,360,076**	**-**	**-**	**-**
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**77,595**	**77,595**	**77,595**	**-**	**-**	**-**
Long-term debt - net (including current maturities)	**225,211,523**	**287,961,131**	**29,343,594**	**38,946,443**	**130,968,217**	**88,702,877**
Lease liabilities (including current portion)	**113,354,538**	**137,764,285**	**29,434,453**	**29,661,413**	**51,233,313**	**27,435,106**
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**1,522,887**	**1,559,937**	**42,988**	**35,981**	**945,866**	**535,102**

**Excluding statutory receivables and payables*

December 31, 2019 (Audited)	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P79,954,187	P79,954,187	P79,954,187	P -	P -	P -
Trade and other receivables - net*	29,834,844	29,834,844	29,834,844	-	-	-
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	676	676	676	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	75,518	75,518	-	18,303	57,215	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	454,481	476,180	37,758	49,348	148,402	240,672
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	6,689,975	6,689,975	1,786,229	3,773,041	15	1,130,690
Financial Liabilities						
Loans payable	2,278,575	2,285,429	2,285,429	-	-	-
Accounts payable and accrued expenses*	26,971,319	26,971,319	26,971,319	-	-	-
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	18,636	18,636	18,636	-	-	-
Long-term debt - net (including current maturities)	226,799,041	297,630,115	19,478,009	35,982,049	149,303,961	92,866,096
Lease liabilities (including current portion)	124,202,679	148,521,035	29,381,197	29,640,341	64,063,341	25,436,156
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	930,437	982,408	49,730	20,210	410,180	502,288

**Excluding statutory receivables and payables*

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables
The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk, without considering the effects of other risk mitigation techniques, is presented below:

	Note	**June 30, 2020 (Unaudited)**	December 31, 2019 (Audited)
Cash and cash equivalents (excluding cash on hand)	*7*	**P92,992,767**	P79,951,936
Trade and other receivables - net*	*8*	**37,080,132**	29,834,844
Derivative assets not designated as cash flow hedge	*13*	**-**	676
Derivative assets designated as cash flow hedge		**50,564**	75,518
Noncurrent receivables	*13*	**538,346**	454,481
Restricted cash		**8,150,752**	6,689,975
		P138,812,561	P117,007,430

**Excluding statutory receivables*

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Financial assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost				
June 30, 2020 (Unaudited)	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - Credit impaired**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P92,992,767**	**P -**	**P -**	**P -**	**P92,992,767**
Trade and other receivables	**-**	**37,080,132**	**2,793,710**	**-**	**39,873,842**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**50,564**	**50,564**
Noncurrent receivables	**-**	**538,346**	**-**	**-**	**538,346**
Restricted cash	**8,150,752**	**-**	**-**	**-**	**8,150,752**
	P101,143,519	**P37,618,478**	**P2,793,710**	**P50,564**	**P141,606,271**

	Financial Assets at Amortized Cost					
December 31, 2019 (Audited)	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P79,951,936	P -	P -	P -	P -	P79,951,936
Trade and other receivables	-	29,834,844	2,828,484	-	-	32,663,328
Derivative assets not designated as cash flow hedge	-	-	-	676	-	676
Derivative assets designated as cash flow hedge	-	-	-	-	75,518	75,518
Noncurrent receivables	-	454,481	-	-	-	454,481
Restricted cash	6,689,975	-	-	-	-	6,689,975
	P86,641,911	P30,289,325	P2,828,484	P676	P75,518	P119,835,914

Receivables that are not credit impaired are considered high grade since the counterparties have strong financial capacity and business performance and with the lowest default risk.

The aging of trade and other receivables (excluding statutory receivables) is as follows:

	June 30, 2020 (Unaudited)				December 31, 2019 (Audited)			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P12,192,456**	**P901,099**	**P658,016**	**P13,751,571**	P11,055,287	P1,627,887	P852,680	P13,535,854
Past due:								
1-30 days	**2,386,053**	**8,488**	**113,810**	**2,508,351**	1,709,774	182,485	448,747	2,341,006
31-60 days	**2,589,510**	**13,942**	**128,955**	**2,732,407**	728,531	62,108	895	791,534
61-90 days	**2,991,651**	**11,358**	**61,841**	**3,064,850**	127,899	57,845	1,200	186,944
Over 90 days	**9,850,630**	**7,262,261**	**703,772**	**17,816,663**	7,899,428	7,339,194	569,368	15,807,990
	P30,010,300	**P8,197,148**	**P1,666,394**	**P39,873,842**	P21,520,919	P9,269,519	P1,872,890	P32,663,328

Past due trade receivables more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period. There are no significant changes in the credit quality of the counterparties during the period.

The Group's cash and cash equivalents, derivative assets and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 43% and 47% of the Group's total revenues for the periods ended June 30, 2020 and 2019, respectively.

The Group does not execute any credit guarantee in favor of any counterparty.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, RPS, USCS and SPCS (Notes 12 and 14).

The Group defines capital as capital stock, additional paid-in capital, RPS, USCS, SPCS and retained earnings, both appropriated and unappropriated. Other components of equity such as equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the condensed consolidated interim statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

There were no changes in the Group's approach to capital management during the period.

20. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	June 30, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P92,995,124**	**P92,995,124**	P79,954,187	P79,954,187
Trade and other receivables - net*	**37,080,132**	**37,080,132**	29,834,844	29,834,844
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" accounts)	**-**	**-**	676	676
Derivative assets designated as cash flow hedge (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**50,564**	**50,564**	75,518	75,518
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**538,346**	**538,346**	454,481	454,481
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**8,150,752**	**8,150,752**	6,689,975	6,689,975
	P138,814,918	**P138,814,918**	P117,009,681	P117,009,681
Financial Liabilities				
Loans payable	**P1,744,050**	**P1,744,050**	P2,278,575	P2,278,575
Accounts payable and accrued expenses*	**30,360,076**	**30,360,076**	26,971,319	26,971,319
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**77,595**	**77,595**	18,636	18,636
Long-term debt - net (including current maturities)	**225,211,523**	**263,039,831**	226,799,041	250,190,405
Lease liabilities (including current portion)	**113,354,538**	**113,354,538**	124,202,679	124,202,679
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**1,522,887**	**1,522,887**	930,437	937,562
	P372,270,669	**P410,098,977**	P381,200,687	P404,599,176

**Excluding statutory receivables and payables*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Noncurrent Receivables, and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and restricted cash, the carrying amounts approximate their fair values, since the effect of discounting is not considered material.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs. The fair values of the derivatives have been categorized as Level 2 in the fair value hierarchy.

Loans Payable and Accounts Payable and Accrued Expenses (excluding Statutory Payables). The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.80% to 2.82% and 3.09% to 4.52% as at June 30, 2020 and December 31, 2019, respectively. Discount rates used for foreign currency-denominated loans range from 0.17% to 0.69% and 1.59% to 1.97% as at June 30, 2020 and December 31, 2019, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of peso-denominated bonds has been categorized as Level 1 and interest-bearing fixed-rate loans, lease liabilities and other noncurrent liabilities have been categorized as Level 2 in the fair value hierarchy.

<u>Derivative Financial Instruments</u>
The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risks. The portfolio is a mixture of instruments including forwards and swaps.

<u>Derivative Instruments Accounted for as Cash Flow Hedges</u>
Call Spread Swaps
As at June 30, 2020 and December 31, 2019, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. As at June 30, 2020, the positive fair value of the call spread swaps, included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts amounted to P7,242 and P43,322, respectively. As at December 31, 2019, the positive fair value of the call spread swaps amounted to P75,518, included under "Other noncurrent assets" account.

The table below provides for a reconciliation of the components of equity and other comprehensive income items, net of tax, resulting from cash flow hedge accounting:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance	**(P39,910)**	(P1,844)
Changes in fair value of derivatives	**(24,954)**	(88,112)
Amount reclassified to profit or loss due to interest expense and other financing charges	**25,196**	50,836
Reversal of prior year income tax benefit	**-**	(790)
Ending balance	**(P39,668)**	(P39,910)

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the condensed consolidated interim statements of income for the periods ended June 30, 2020 and for the year ended December 31, 2019.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards and swaps, to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the condensed consolidated interim statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of foreign currency and commodity derivatives entered into by the Group.

Currency Forwards

The Group entered into short-term foreign currency forward contracts with aggregate notional amount of US$110,000 and US$90,000 as at June 30, 2020 and December 31, 2019, respectively. The negative fair value of these currency forwards amounted to P77,595 and P15,225 as at June 30, 2020 and December 31, 2019, respectively.

Commodity Swaps

The Group has entered into fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2020. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. All commodity swaps matured as at June 30, 2020. The outstanding notional quantity covered by the commodity swaps is 233,000 metric tons as at December 31, 2019. The net negative fair value of these commodity swaps amounted to P2,735 as at December 31, 2019.

The Group recognized marked-to-market losses from freestanding derivatives amounting to P126,224 and P267,692 for the periods ended June 30, 2020 and 2019, respectively (Note 17).

Fair Value Changes on Derivatives

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance	**P57,558**	P258,850
Net change in fair value of derivatives:		
Designated as accounting hedge	**(24,954)**	(88,112)
Not designated as accounting hedge	**(126,224)**	(264,824)
	(93,620)	(94,086)
Less fair value of settled instruments	**(66,589)**	(151,644)
Ending balance	**(P27,031)**	P57,558

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the condensed consolidated interim financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the condensed consolidated interim financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

21. Other Matters

a. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined.

i. Temporary Restraining Order (TRO) Issued to Meralco

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction ("Petition") filed in the Supreme Court (SC) by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the SC issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the SC issued an order treating the Counter-Petition as in the nature of a third-party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining the Philippine Electricity Market Corporation ("PEMC") and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the SC.

ii. ERC Order Voiding WESM Prices

Relative to the above-cited Petition, on December 27, 2013, the Philippine Department of Energy ("DOE"), ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "March 3, 2014 Order"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the March 3, 2014 Order. Other generators also requested the SC to stop the implementation of the March 3, 2014 Order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI, filed before the Court of Appeals (CA) a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 2014, March 27, 2014, and May 9, 2014 ("the 2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the CA on December 12, 2014.

After consolidating the cases, the CA, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a resolution dated March 22, 2018, the CA denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the CA dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the CA issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

The intervenors thereafter filed petitions for certiorari before the SC, First Division. Each were denied by the SC through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the CA committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene.

MPPCL filed on January 22, 2020, while SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the SC. In its petition, the ERC appealed the CA Decision of November 7, 2017 and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

PEMC also filed a Motion to Admit Comment and Comment on the ERC's Petition for Review both dated March 12, 2020.

In a Resolution dated February 10, 2020, the SC directed the respondents to file their respective Comments on the Petition for Review filed by Meralco. SMEC, SPPC, SPDC, SPI, and Petron Corporation, received, through counsel, a copy of the Resolution on June 25, 2020. They filed a motion for extension of time, asking for an additional period of 10 days from July 5, 2020, or until July 15, 2020, to file their Comment on Meralco's Petition. MPPCL also filed a motion for extension of time, asking for an additional period of 10 days from July 6, 2020, or until July 16, 2020, to file its Comment on Meralco's Petition. SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on July 15, 2020, while MPPCL filed on July 16, 2020, their Comments on Meralco's Petition.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,321,785, plus interest.

iii. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain its position that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the performance bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court (RTC) of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016 (the “June 27, 2016 RTC Order”), the RTC denied PSALM’s: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceeding with the termination of the Illijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order dated October 19, 2015, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to the June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the CA seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction “against public respondent RTC and its assailed orders”. The CA, however, denied the petition filed by PSALM in its decision dated December 19, 2017 (“CA Decision”). In the CA Decision, the CA upheld the lower court’s issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA Agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the "CA Resolution"), the CA denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the SC praying for the reversal and nullification of the CA Decision and the CA Resolution. Said petition was denied by the SC in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution") due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the CA committed any reversible error in the challenged decision and resolution as to warrant the exercise of the CA's discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the SC in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgement issued by the SC on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City.

SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction with the CA, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although the CA dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "2019 CA Resolution"), the CA subsequently granted the Motion for Reconsideration filed by PSALM in response to the 2019 CA Resolution. In a Resolution dated February 24, 2020, the CA required PSALM to revise its petition and send the revised copies to SPPC and Meralco.

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion in March 2020.

PSALM filed several pleadings: (1) Urgent Ex-Parte Motion for Early Resolution of its Motion for Leave to File Amended Answer Ad Cautelam dated May 28, 2020; (b) Motion for Reconsideration of the RTC's Order of February 14, 2020, which did not allow PSALM to present witnesses in support of its Motion to Dissolve the Writ of Preliminary Injunction and directed the parties to submit pleadings and documents in support of their respective positions; and (3) Reply to SPPC's Opposition to its Motion to Dissolve the Writ of Preliminary Injunction. On July 6, 2020, SPPC filed an Opposition to the Motion for Reconsideration filed by PSALM on the RTC's Order of February 14, 2020.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its power supply agreements with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in 2022.

iv. *Criminal Cases*

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of Republic Act No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act ("RA No. 3019"), before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's Ilijan IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$60,000. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and TeaM Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file an Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of the RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

v. *Civil Cases*
SMEC
On June 17, 2016, SMEC filed with the RTC of Pasig City ("RTC Pasig") a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and to Allow Future Consignation without Tender (the "Omnibus Motion"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration ("MR") to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM's Comment on August 13, 2018.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case.

On December 13, 2019, the case was re-raffled to Branch 268. On February 7, 2020, a clarificatory hearing was held and Branch 268 noted the pending incidents, which are: (a) SMEC's Motion for Partial Reconsideration and Supplemental Motion for Reconsideration of the Order dated May 22, 2018; (b) SMEC's two Motions to Admit Supplemental Complaint; and (c) PSALM's Motion to Set Preliminary Hearing on the Special and Affirmative Defenses.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at June 30, 2020 and December 31, 2019, the total amount consigned with the RTC Pasig is P491,242, included under “Other noncurrent assets”, particularly “Restricted cash” account, in the condensed consolidated interim statements of financial position.

b. <u>Commitments</u>
The outstanding purchase commitments of the Group amounted to P14,399,611 as at June 30, 2020.

Amount authorized but not yet disbursed for capital projects as at June 30, 2020 is approximately P67,275,700.

c. <u>Effect of Corona Virus Disease 2019 (COVID-19)</u>
The President of the Philippines declared under Proclamation No. 922 dated March 8, 2020 and Proclamation No. 929 dated March 16, 2020, a state of public health emergency and a state of calamity, respectively, throughout the Philippines due to the COVID-19 pandemic and imposed an Enhanced Community Quarantine (“ECQ”) across the entire island of Luzon effective March 17, 2020 until April 12, 2020. Executive Order No. 112 dated April 30, 2020 further extended the ECQ in the National Capital Region (“NCR”) and other provinces until May 15, 2020. Following this, the Philippine government, through resolutions issued by the Inter-Agency Task Force of Emerging Infectious Disease (“IATF-EID”), progressively transitioned certain areas to Modified Enhanced Community Quarantine (“MECQ”) and General Community Quarantine (“GCQ”) starting May 16, 2020 based on the IATF-EID’s risk assessments.

Given this, demand of industrial customers in the Grid decreased significantly during the ECQ period as a result of the cessation of business operations, but has gradually increased with the transition from ECQ to MECQ and GCQ, resulting from the gradual reopening of economic activities in the NCR. On the other hand, demand of most utility customers of the Group increased compared to historical levels and more than compensated for the reduction of industrial demand. A significant portion, if not all, of utility demand represents residential and small-scale industrial customers, which had consistent and levelled load profiles throughout the quarantine period that even resulted to improved fuel and operational efficiencies in the Group’s power plants. From the Group’s perspective, its bilateral energy volumes emanate mainly from contracted capacity with utility companies. Their power supply agreements mostly require a take-or-pay arrangement or impose minimum offtake volumes which thus allow the Group to continuously bill these customers at the pertinent contracted volumes during the community quarantine period.

The day-to-day operations of the Group, being primarily engaged in power generation, are not significantly affected by the ECQ declaration because the Philippine government considers power generation as an essential service and thus allows the continuation of ongoing activities related thereto. As a result, the Group's power generation activities and the ongoing repairs and maintenance works remain unhampered. As a critical safety measure to prevent the spread of COVID-19 cases but ensure operational resiliency, power plant personnel stay in the plant premises and are provided with the necessary accommodations, including food and other essential supplies, during the community quarantine period. On the other hand, support functions have been placed under flexible work arrangements (i.e. work from home, skeletal work force). The foregoing measures allow the Group to operate its power plant portfolio continuously and at levels sufficient to meet its bilateral volume commitments to its customers notwithstanding economic and logistical challenges faced during the community quarantine period. The Group thus expects to maintain its budgeted financial performance for the rest of the year.

The primary regulators in the local power industry, the ERC and the DOE, issued separate advisories allowing deferred payment of power bills falling due within the ECQ period, which may be paid over four equal monthly installments. Nevertheless, with the consolidated unrestricted cash and cash equivalents of P92,995,124 as at June 30, 2020, the Group has sufficient funds to continue settling its obligations as they fall due even without the benefit of a corresponding deferral as may be allowed by the regulators, while accommodating the deferred payment schemes availed of by its customers.

The Group continues to review and implement the necessary changes to its operations and business processes as well as its capital expenditure plans in view of the global and local economic factors as a result of the COVID-19 pandemic. The Group places equal importance to maintaining and, in certain aspects, even improving its financial position and financial performance during the community quarantine period and for the rest of the year.

d. Events After the Report Date

On July 29, 2020, the Parent Company's BOD approved the payment of distribution in the total amount of US$10,156 on September 16, 2020 to the holder of the US$650,000 RPS issued in March 2018, and the payment of distributions, amounting to US$26,000 and US$14,875, plus applicable taxes, on October 25 and November 5, 2020 to the holders of the US$800,000 and US$500,000 SPCS issued in April and November 2019, respectively.

e. Supplemental Cash Flows Information

The following table summarizes the changes in liabilities and equity arising from the financing activities, including both changes arising from cash flows and non-cash changes:

	Loans Payable	Long-term Debt	Lease Liabilities	SPCS	Total
Balance as at January 1, 2019 (Audited)	**P2,278,575**	**P226,799,041**	**P124,202,679**	**P65,885,565**	**P419,165,860**
Changes from Financing Cash Flows					
Proceeds from borrowings	**4,031,400**	**2,179,240**	**-**	**-**	**6,210,640**
Payments of borrowings	**(4,529,700)**	**(2,892,145)**	**-**	**-**	**(7,421,845)**
Payments of lease liabilities	**-**	**-**	**(11,255,306)**	**-**	**(11,255,306)**
Proceeds from issuance of SPCS	**-**	**-**	**-**	**30,172,601**	**30,172,601**
Total Changes from Financing Cash Flows	**(498,300)**	**(712,905)**	**(11,255,306)**	**30,172,601**	**17,706,090**
Effect of changes in foreign exchange rates	**(36,225)**	**(1,170,990)**	**(931,298)**	**-**	**(2,138,513)**
Other changes	**-**	**296,377**	**1,338,463**	**-**	**1,634,840**
Balance as at June 30, 2020 (Unaudited)	**P1,744,050**	**P225,211,523**	**P113,354,538**	**P96,058,166**	**P436,368,277**

	Loans Payable	Long-term Debt	Lease Liabilities	USCS	SPCS	Total
Balance as at January 1, 2019 (Audited)	P8,675,700	P206,965,260	P142,007,061	P26,933,565	P -	P384,581,586
Changes from Financing Cash Flows						
Proceeds from borrowings	9,179,550	34,834,600	-	-	-	44,014,150
Proceeds from issuance of SPCS	-	-	-	-	65,885,565	65,885,565
Payments of USCS redemption	-	-	-	(15,183,000)		(15,183,000)
Payments of borrowings	(15,436,350)	(12,406,504)	-	-	-	(27,842,854)
Payments of lease liabilities	-	-	(19,297,119)	-	-	(19,297,119)
Total Changes from Financing Cash Flows	(6,256,800)	22,428,096	(19,297,119)	(15,183,000)	65,885,565	47,576,742
Adjustment due to adoption of PFRS 16	-	-	1,450,467	-	-	1,450,467
Effect of changes in foreign exchange rates	(140,325)	(2,810,443)	(2,689,374)	-	-	(5,640,142)
Other changes	-	216,128	2,731,644	2,072,934	-	5,020,706
Balance as at December 31, 2019 (Audited)	P2,278,575	P226,799,041	P124,202,679	P13,823,499	P65,885,565	P432,989,359

KPMG

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter is addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Goodwill (P69,944 million)
Refer to Note 3, Significant Accounting Policies, Note 4, Use of Judgments, Estimates and Assumptions, Note 5, Business Combination, and Note 16, Goodwill and Other Intangible Assets.

The risk -

The Group recognized a significant amount of goodwill arising from the acquisition of Masinloc Group. The annual impairment test on goodwill was significant to our audit since the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions including future cash flow projections, growth rate and discount rate.

Our response -

We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity and reasonableness of the discounted cash flow model used by the Group. This involved evaluating the model used and assumptions applied and comparing these assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, inflation and discount rates, as well as performing our own sensitivity analysis on the assumptions.

- We evaluated the adequacy of the disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

▪ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

▪ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
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Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-031-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 9, 2020
Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(In Thousands)

	Note	**2019**	2018
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 31, 32*	**P79,954,187**	P28,511,862
Trade and other receivables - net	*4, 7, 9, 21, 31, 32*	**29,989,449**	33,046,686
Inventories	*4, 7, 10, 21*	**5,085,423**	5,294,631
Prepaid expenses and other current assets	*7, 11*	**23,589,625**	21,761,716
Total Current Assets		**138,618,684**	88,614,895
Noncurrent Assets			
Investments and advances - net	*4, 12*	**11,000,760**	12,148,986
Property, plant and equipment - net	*3, 4, 7, 13*	**150,344,032**	312,315,406
Right-of-use assets - net	*3, 7, 14*	**166,517,296**	-
Deferred exploration and development costs	*3, 4, 7, 15*	**710,836**	705,458
Goodwill and other intangible assets - net	*4, 5, 7, 15, 16*	**72,771,271**	72,613,363
Deferred tax assets	*4, 28*	**1,128,754**	1,137,565
Other noncurrent assets	*17, 21, 31, 32*	**16,027,360**	6,314,562
Total Noncurrent Assets		**418,500,309**	405,235,340
		P557,118,993	P493,850,235
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*18, 31, 32*	**P2,278,575**	P8,675,700
Accounts payable and accrued expenses	*19, 21, 31, 32*	**35,402,892**	31,109,917
Lease liabilities - current portion	*4, 7, 31, 32*	**23,085,083**	19,659,645
Income tax payable		**214,776**	310,882
Current maturities of long-term debt - net of debt issue costs	*20, 31, 32*	**6,036,174**	4,939,454
Total Current Liabilities		**67,017,500**	64,695,598
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*20, 31, 32*	**220,762,867**	202,025,806
Deferred tax liabilities	*28*	**13,197,658**	8,180,119
Lease liabilities - net of current portion	*4, 7, 31, 32*	**101,117,596**	122,347,416
Other noncurrent liabilities	*4, 7, 21, 22, 31, 32*	**1,598,616**	843,571
Total Noncurrent Liabilities		**336,676,737**	333,396,912
Total Liabilities		**403,694,237**	398,092,510

Forward

	Note	2019	2018
Equity	*23*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Senior perpetual capital securities		**65,885,565**	-
Redeemable perpetual securities		**32,751,570**	32,751,570
Undated subordinated capital securities		**13,823,499**	26,933,565
Equity reserves	*22, 32*	**(2,568,395)**	618,307
Retained earnings		**38,987,442**	31,901,779
		152,432,185	95,757,725
Non-controlling Interests	*12*	**992,571**	-
Total Equity		**153,424,756**	95,757,725
		P557,118,993	P493,850,235

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands, Except Per Share Data)

	Note	**2019**	2018	2017
REVENUES	*5, 21, 24, 34*	**P135,060,079**	P120,102,847	P82,790,575
COST OF POWER SOLD	*25*	**91,758,200**	80,818,306	53,825,314
GROSS PROFIT		**43,301,879**	39,284,541	28,965,261
SELLING AND ADMINISTRATIVE EXPENSES	*26*	**7,348,194**	6,110,210	4,688,981
INCOME FROM OPERATIONS		**35,953,685**	33,174,331	24,276,280
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 13, 18, 19, 20*	**(19,720,720)**	(17,616,056)	(13,244,581)
INTEREST INCOME	*8*	**1,585,459**	661,212	460,958
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	*12*	**(391,054)**	(471,236)	(40,396)
OTHER INCOME (CHARGES) - Net	*7, 13, 27*	**4,199,255**	(3,546,602)	2,944,165
INCOME BEFORE INCOME TAX		**21,626,625**	12,201,649	14,396,426
INCOME TAX EXPENSE	*28, 29*	**7,263,116**	3,901,532	6,179,510
NET INCOME		**P14,363,509**	P8,300,117	P8,216,916
Attributable to:				
Equity holders of the Parent Company	*30*	**P14,370,482**	P8,281,774	P8,216,916
Non-controlling interests		**(6,973)**	18,343	-
		P14,363,509	P8,300,117	P8,216,916
Earnings Per Common Share Attributable to Equity Holders of the Parent Company				
Basic/Diluted	*30*	**P5.21**	P2.67	P4.11

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	Note	**2019**	2018	2017
NET INCOME		**P14,363,509**	P8,300,117	P8,216,916
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan - net	*22, 28*	**(42,312)**	30,682	2,739
Share in other comprehensive income (loss) of an associate - net	*12*	**(517)**	1,002	-
		(42,829)	31,684	2,739
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**(989,010)**	145,256	-
Net loss on cash flow hedges	*32*	**(38,066)**	(1,844)	-
		(1,027,076)	143,412	-
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(1,069,905)**	175,096	2,739
TOTAL COMPREHENSIVE INCOME - Net of tax		**P13,293,604**	P8,475,213	P8,219,655
Attributable to:				
Equity holders of the Parent Company		**P13,300,577**	P8,456,870	P8,219,655
Non-controlling interests		**(6,973)**	18,343	-
		P13,293,604	P8,475,213	P8,219,655

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

		Equity Attributable to Equity Holders of Parent Company												
							Equity Reserves							
	Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Senior Perpetual Capital Securities	Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2019, as previously reported (Audited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P26,933,565**	**P -**	**P466,843**	**P145,256**	**P8,052**	**(P1,844)**	**P31,901,779**	**P95,757,725**	**P -**	**P95,757,725**
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16	3	-	-	-	-	-	-	-	-	-	(18,917)	(18,917)	-	(18,917)
As at January 1, 2019, as adjusted		**1,062,504**	**2,490,000**	**32,751,570**	**26,933,565**	**-**	**466,843**	**145,256**	**8,052**	**(1,844)**	**31,882,862**	**95,738,808**	**-**	**95,738,808**
Net income		-	-	-	-	-	-	-	-	-	14,370,482	14,370,482	(6,973)	14,363,509
Other comprehensive income - net of tax		-	-	-	-	-	-	(989,010)	(42,829)	(38,066)	-	(1,069,905)	-	(1,069,905)
Total comprehensive income		-	-	-	-	-	-	(989,010)	(42,829)	(38,066)	14,370,482	13,300,577	(6,973)	13,293,604
Reversal of reserve for retirement plan	22	-	-	-	-	-	-	333	(28,626)	-	28,293	-	-	-
Issuance of senior perpetual capital securities	23, 33	-	-	-	-	65,885,565	-	-	-	-	-	65,885,565	-	65,885,565
Redemption of undated subordinated capital securities	23, 33	-	-	-	(13,110,066)	-	(2,072,934)	-	-	-	-	(15,183,000)	-	(15,183,000)
Non-controlling interests from acquisition of an asset	12	-	-	-	-	-	(15,570)	-	-	-	-	(15,570)	999,544	983,974
Share issuance costs		-	-	-	-	-	-	-	-	-	(281,201)	(281,201)	-	(281,201)
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	-	(3,183,367)	(3,183,367)	-	(3,183,367)
Redeemable perpetual securities	23	-	-	-	-	-	-	-	-	-	(2,096,758)	(2,096,758)	-	(2,096,758)
Senior perpetual capital securities	23	-	-	-	-	-	-	-	-	-	(1,732,869)	(1,732,869)	-	(1,732,869)
Transactions with owners		-	-	-	(13,110,066)	65,885,565	(2,088,504)	333	(28,626)	-	(7,265,902)	43,392,800	999,544	44,392,344
As at December 31, 2019		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P13,823,499**	**P65,885,565**	**(P1,621,661)**	**(P843,421)**	**(P63,403)**	**(P39,910)**	**P38,987,442**	**P152,432,185**	**P992,571**	**P153,424,756**
As at January 1, 2018, as previously reported (Audited)		P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512
Adjustments due to PFRS 15		-	-	-	-	-	-	-	-	-	(49,405)	(49,405)	-	(49,405)
As at January 1, 2018, as adjusted		1,062,504	2,490,000	-	26,933,565	-	785,279	-	(23,632)	-	28,468,391	59,716,107	-	59,716,107
Net income		-	-	-	-	-	-	-	-	-	8,281,774	8,281,774	18,343	8,300,117
Other comprehensive income (loss) - net of tax	22, 32	-	-	-	-	-	-	145,256	31,684	(1,844)	-	175,096	-	175,096
Total comprehensive income		-	-	-	-	-	-	145,256	31,684	(1,844)	8,281,774	8,456,870	18,343	8,475,213
Issuance of redeemable perpetual securities	5, 23	-	-	32,751,570	-	-	-	-	-	-	-	32,751,570	-	32,751,570
Non-controlling interest from acquisition of subsidiaries	5	-	-	-	-	-	-	-	-	-	-	-	198,077	198,077
Cash dividends		-	-	-	-	-	-	-	-	-	-	-	(4,049)	(4,049)
Acquisition of non-controlling interest	12	-	-	-	-	-	(318,436)	-	-	-	(4,050)	(322,486)	(212,371)	(534,857)
Share issuance costs		-	-	-	-	-	-	-	-	-	(7,855)	(7,855)	-	(7,855)
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	-	(3,215,290)	(3,215,290)	-	(3,215,290)
Redeemable perpetual securities	23	-	-	-	-	-	-	-	-	-	(1,621,191)	(1,621,191)	-	(1,621,191)
Transactions with owners		-	-	32,751,570	-	-	(318,436)	-	-	-	(4,848,386)	27,584,748	(18,343)	27,566,405
As at December 31, 2018		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725
As at January 1, 2017		P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P26,371)	P -	P23,425,647	P54,670,624	P -	P54,670,624
Net income		-	-	-	-	-	-	-	-	-	8,216,916	8,216,916	-	8,216,916
Other comprehensive income - net of tax	22	-	-	-	-	-	-	-	2,739	-	-	2,739	-	2,739
Total comprehensive income		-	-	-	-	-	-	-	2,739	-	8,216,916	8,219,655	-	8,219,655
Share issuance costs		-	-	-	-	-	-	-	-	-	(50,563)	(50,563)	-	(50,563)
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	-	(3,074,204)	(3,074,204)	-	(3,074,204)
Transactions with owners		-	-	-	-	-	-	-	-	-	(3,124,767)	(3,124,767)	-	(3,124,767)
As at December 31, 2017		P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	Note	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P21,626,625**	P12,201,649	P14,396,426
Adjustments for:				
Interest expense and other financing charges	*7, 18, 20*	**19,710,034**	17,616,056	13,244,581
Depreciation and amortization	*7, 13, 14, 15, 25, 26*	**9,917,656**	9,340,235	6,064,931
Equity in net losses of associates and joint ventures	*12*	**391,054**	471,236	40,396
Impairment losses on trade and other receivables	*9, 26*	**257,879**	135,426	-
Impairment losses on property, plant and equipment	*13, 27*	**35,084**	70,265	-
Impairment losses on concession assets	*25*	**29,575**	-	-
Loss on retirement of property, plant and equipment	*13, 27*	**66**	34,869	-
Gain on sale of property, plant and equipment	*13*	**(1,402)**	-	-
Unrealized marked - to - market gain on derivatives	*32*	**(57,558)**	(23,036)	(61,903)
Retirement cost (benefit)	*22*	**(136,488)**	32,525	12,653
Interest income	*8, 17*	**(1,585,459)**	(661,212)	(460,958)
Unrealized foreign exchange losses (gains) - net		**(4,208,210)**	4,032,084	(786,921)
Operating income before working capital changes		**45,978,856**	43,250,097	32,449,205
Decrease (increase) in:				
Trade and other receivables - net	*9*	**2,507,863**	(5,499,476)	2,114,023
Inventories	*10*	**135,620**	266,017	(875,379)
Prepaid expenses and other current assets	*11*	**(1,881,731)**	(9,936,971)	(982,825)
Increase (decrease) in:				
Accounts payable and accrued expenses	*19*	**4,491,594**	1,101,159	(4,864,843)
Other noncurrent liabilities and others		**812,602**	54,694	14,521
Cash generated from operations		**52,044,804**	29,235,520	27,854,702
Interest income received		**1,547,373**	687,752	395,960
Income taxes paid		**(2,189,655)**	(2,550,880)	(1,242,012)
Interest expense and other financing charges paid		**(21,443,487)**	(12,113,199)	(5,163,304)
Net cash flows provided by operating activities		**29,959,035**	15,259,193	21,845,346

Forward

	Note	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	13	**P1,817**	P -	P54,184
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	**-**	(97,333,757)	-
Acquisition of non-controlling interests	23	**-**	(532,425)	-
Additions to deferred exploration and development costs	15	**(5,011)**	(6,457)	(5,622)
Additions to investments and advances	12	**(197,275)**	(471,385)	(416,073)
Additions to intangible assets	7, 16	**(211,183)**	(140,210)	(132,474)
Additions to property, plant and equipment	13, 18, 20	**(10,117,487)**	(6,049,753)	(8,911,531)
Decrease (increase) in other noncurrent assets		**(7,986,063)**	2,499,277	(6,867,810)
Net cash flows used in investing activities		**(18,515,202)**	(102,034,710)	(16,279,326)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of senior perpetual capital securities	23	**65,885,565**	-	-
Proceeds from long-term debt	20, 33	**34,834,600**	106,026,200	77,000,000
Proceeds from short-term borrowings	18, 33	**9,179,550**	41,937,600	113,419,200
Proceeds from issuance of redeemable perpetual securities	23	-	32,751,570	-
Cash dividends paid to previous holder of non-controlling interest		**-**	(4,050)	-
Payment of stock issuance costs		**(281,201)**	(7,855)	(50,563)
Distributions paid to senior perpetual capital securities holders	23	**(1,732,869)**	-	-
Distributions paid to redeemable perpetual securities holders	23	**(2,096,758)**	(1,621,191)	-
Distributions paid to undated subordinated capital securities holders	23	**(3,183,367)**	(3,215,290)	(3,074,204)
Payments of long-term debt	20, 33	**(12,406,504)**	(22,112,232)	(53,110,468)
Redemption of undated subordinated capital securities	23	**(15,183,000)**	-	-
Payments of short-term borrowings	18, 33	**(15,436,350)**	(41,510,000)	(107,782,255)
Payments of lease liabilities	7, 33	**(19,297,119)**	(25,715,487)	(24,874,993)
Net cash flows provided by financing activities		**40,282,547**	86,529,265	1,526,717
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(284,055)**	102,755	71,237
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**51,442,325**	(143,497)	7,163,974
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**28,511,862**	28,655,359	21,491,385
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**P79,954,187**	P28,511,862	P28,655,359

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, assign, lease, develop, operate and dispose of all properties of every kind and description, including shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc. (PSE).

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 9, 2020.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Defined benefit retirement liability	Present value of the defined benefit retirement obligation

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership	
	2019	2018
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Corp. (SPDC)	**100**	100
SMC PowerGen Inc. (SPI)	**100**	100
SMC Consolidated Power Corporation (SCPC) [(a)]	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(b)]	**100**	100
Central Luzon Premiere Power Corp. (CLPPC)	**100**	100
Lumiere Energy Technologies Inc. (formerly Limay Premiere Power Corp. [LPPC]) [(c)]	**100**	100
PowerOne Ventures Energy Inc. (PVEI) [(d)]	**100**	100
Prime Electric Generation Corporation (PEGC)	**100**	100
Oceantech Power Generation Corporation	**100**	100
Masinloc Power Partners Co. Ltd. (MPPCL) [(e) (f)]	**100**	100
Masinloc Energy Resources Inc.	**100**	100
Power Ventures Generation Corporation	**100**	100
TopGen Energy Development Inc.	**100**	100
Universal Power Solutions, Inc. (formerly Limay Power Generation Corporation [LPGC]) [(g)]	**100**	100
Mariveles Power Generation Corporation (MPGC) [(h)]	**90**	49
Everest Power Development Corporation [(i)]	**100**	-
SMC Global Light and Power Corp. [(i)]	**100**	-
Prestige Power Resources Inc. [(i)]	**100**	-
Reliance Energy Development Inc. [(i)]	**100**	-
Ascend Power Resources Inc. [(i)]	**100**	-
Converge Power Generation Corp. [(i)]	**100**	-
EnergyCore Resources Inc. [(i)]	**100**	-
Strategic Energy Development Inc. [(i)]	**100**	-
Excellent Energy Resources Inc. [(i)]	**100**	-
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp. (APEC)	**100**	100
SMC Power Generation Corp. (SPGC) [(j)]	**100**	100
Coal Mining		
Daguma Agro-Minerals, Inc. (DAMI) [(k)]	**100**	100
Sultan Energy Phils. Corp. (SEPC) [(k)]	**100**	100
Bonanza Energy Resources, Inc. (BERI) [(k)]	**100**	100
Others		
Mantech Power Dynamics Services Inc.	**100**	100
Safetech Power Services Corp.	**100**	100
Ondarre Holding Corporation	**100**	100
Grand Planters International, Inc.	**100**	100
Golden Quest Equity Holdings Inc. [(k)]	**100**	100
SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) [(e) (l)]	**100**	100
SMCGP Philippines Inc. (formerly AES Philippines, Inc. [API]) [(e)(m)]	**100**	100

(a) Owner of the 4 x 150 megawatts (MW) Circulating Fluidized Bed (CFB) coal-fired power plant in Limay, Bataan (Phase I and II Limay Greenfield Power Plant) (Notes 12 and 13).

(b) Owner of the 2 x 150 MW CFB coal-fired power plant in Malita, Davao (Davao Greenfield Power Plant) (Notes 12 and 13).

(c) On November 15, 2019, LPPC changed its name to Lumiere Energy Technologies Inc. (LETI).

(d) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation (KWPP) as joint ventures.

(e) Acquired in March 2018 (Note 5).

(f) Indirectly owned by the Parent Company, through its wholly-owned subsidiary SMCGP Masin Pte. Ltd. (formerly Masin-AES Pte. Ltd. [MAPL]), and owner of the Masinloc Power Plant (Note 5).

(g) On September 24, 2019, LPGC changed its name to Universal Power Solutions, Inc. (UPSI).

(h) The Parent Company subscribed the remaining unissued common shares of MPGC in January and September 2019, thereby increasing its ownership interest from 49% to 89.5% as at December 31, 2019. Non-controlling interests represent the 10.1% and 0.4% held by Meralco PowerGen Corporation and by Zygnet Prime Holdings, Inc., respectively. It has not yet started commercial operations as at December 31, 2019 (Note 12).

(i) Incorporated in 2019 and have not yet started commercial operations as at December 31, 2019.

(j) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc., (OEDC) as an associate.

(k) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as at December 31, 2019.

(l) On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. (SMCGP Masin) and SMCGP Transpower Pte. Ltd. (SMCGP Transpower), respectively.

(m) On May 22, 2018, API changed its name to SMCGP Philippines Inc. (SPHI).

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in MPGC as at December 31, 2019 and in Alpha Water and Realty Services Corp. ("Alpha Water") for the period covering March 20, 2018 to July 13, 2018 (Note 12).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative translation differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

  As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 7.50% as at January 1, 2019.

  The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

  - applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;

  - excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

  - used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position.

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	Note	**Increase (Decrease**
ASSETS		
Property, plant and equipment - net	*13*	(P167,531,002)
Right-of-use assets - net	*14*	168,815,696
Deferred exploration and development costs	*15*	367
Deferred tax assets	*28*	5,285
		P1,290,346
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses		(P132,818)
Lease liabilities - current portion		39,317
Lease liabilities - net of current portion		1,411,150
Deferred tax liabilities	*28*	(8,386)
Total Liabilities		1,309,263
Retained earnings		(18,917)
Total Equity		(18,917)
		P1,290,346

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P2,998,943
Extension option reasonably certain to be exercised	481,086
Recognition exemption for short-term leases	(990)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(2,028,572)
Lease liabilities recognized based on the initial application of PFRS 16 as at January 1, 2019	1,450,467
Finance lease liabilities recognized as at December 31, 2018	142,007,061
Lease liabilities recognized as at January 1, 2019	P143,457,528

- Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures)*. The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

  The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:

  - *Prepayment Features with Negative Compensation.* The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

  - *Modification of Financial Liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:

  - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements***)**. The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

  - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

  - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

Except as otherwise indicated, the adoption of the new and amended standards and interpretation did not have a material effect on the consolidated financial statements.

New and Amended Standards and Framework Not Yet Adopted

A number of new and amended standards and framework are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and framework on the respective effective dates:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies*, *Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

  - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

  - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

  - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

  - *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

  An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

  Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

  The amendments apply for annual reporting periods beginning on or after January 1, 2020, with early application permitted.

  The amendments are still subject to the approval by the FRSC.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the IASB has completed 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.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments
Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

The Group classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operations of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments, noncurrent receivables and restricted cash are included under this category (Notes 8, 9, 11, 17, 31 and 32).

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 11, 31 and 32).

<u>Financial Liabilities</u>
The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 19, 31 and 32).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 18, 19, 20, 31 and 32).

Derecognition of Financial Assets and Financial Liabilities

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

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

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

<u>Impairment of Financial Assets</u>
The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether these financial assets at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Classification of Financial Instruments between Liability and Equity
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards and swaps to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivative assets accounted for as cash flow hedge as at December 31, 2019 and 2018 (Notes 17, 31 and 32).

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has no embedded derivatives as at December 31, 2019 and 2018.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification method and weighted average method for coal inventories and weighted average method for fuel oil and other consumables, and spare parts. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Prepaid Expenses and Other Current Assets
Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units.

  Each unit or group of units to which the goodwill is allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

<u>Business Combinations under Common Control</u>
The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.
Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Acquisition of an Entity that does not Constitute a Business
If the Group acquires an entity that does not constitute a business, then the transaction is outside the scope of PFRS 3. The transaction is accounted for as asset acquisition in which the cost of acquisition is allocated between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. The transaction does not give rise to goodwill.

The Group recognized the related non-controlling interest based on proportionate share of net assets.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net losses of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income.

The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of an associate" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment
Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less impairment in value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease, whichever is shorter
Other equipment	2 - 20
Building	10 - 25

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

<u>Leases</u>

Policy Applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset; and

- the Group has the right to direct the use of the identified asset.

Group as Lessee
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term as follows:

	Number of Years
Land	5 - 28
Buildings and improvements	2 - 5
Powerplants	29 - 43

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

Group as Lessor
The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15, *Revenue from Contracts with Customers,* to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

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

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of intangible assets with finite lives:

	Number of Years
Power concession right	25
Computer software and licenses	3

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Agreements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entity in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements.* Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entity in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group's power concession right pertains to the right granted by the Government to the Parent Company, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). The Group's power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The useful life of power concession right is assessed to be either finite or indefinite. Power concession right arising from a service concession arrangement is amortized using straight-line method over the concession period, which is 25 years from the first day of the commencement of operations, or the estimated useful lives of the infrastructure, whichever is shorter, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the concession assets.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

An entity recognizes and measures revenue in accordance with PFRS 15 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative stand-alone selling prices of the services delivered.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Concession payable is recognized at the date of inception of the concession agreement. Fixed concession fees are recognized at present value using the discount rate at the inception date. This account is debited upon payment of fixed fees and such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession payable is presented under “Interest expense and other financing charges” account in the consolidated statements of income.

Concession payable that are expected to be settled within 12 months after the reporting date are classified as current liabilities. Otherwise, these are classified as noncurrent liabilities.

Mining Rights
The Group's mining rights have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mining rights is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mining rights is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mining rights, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets
The carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Fair Value Measurements

The Group measures financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

ARO. The Group records a provision for asset retirement costs of its power plants. Asset retirement costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of right-of-use assets. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the retirement liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income as part of "Interest expense and other financing charges" account in the consolidated statements of income. The estimated future costs of asset retirement are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the right-of-use assets (previously in the cost of power plants). If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income.

Capital Stock, Additional Paid-in Capital and Reserves
Common Shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Equity Reserves
The equity reserves include the effect of transactions with non-controlling interests and equity adjustments arising from group restructuring transactions.

Translation Reserves
The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Retirement Plan
The reserve for retirement plan represents re-measurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest).

Hedging Reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

Redeemable Perpetual Securities (RPS), Undated Subordinated Capital Securities (USCS) and Senior Perpetual Capital Securities (SPCS)
RPS, USCS and SPCS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of RPS, USCS and SPCS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to RPS, USCS and SPCS.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend, distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Revenue
The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenues are inclusive of pass-through charges, net of value-added tax (VAT) and other fees collected on behalf of other parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power
Revenue from power generation and trading is recognized over time when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services
Revenue from retail and other power-related services are recognized over time upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Other Services
Revenue from other services is recognized when the related services are rendered.

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Management Income. Management income is recognized when earned in accordance with the terms of the agreement.

Rent Income. Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Construction Revenue. Construction revenue related to the Group's recognition of intangible asset on the right to operate and maintain the franchise of ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate and maintain the franchise of ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on lease liabilities, loans, concession payable, premium on option liabilities and other borrowings. Finance charges on lease liabilities, loans, concession payable and premium on option liabilities are recognized in the consolidated statements of income using the effective interest method.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement obligation is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- Remeasurements of defined benefit retirement liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

<u>Foreign Currency</u>

Foreign Currency Translations

Transactions in foreign currencies are initially recorded in the respective functional currency of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of monetary items that in substance form part of a net investment in a foreign operation and hedging instruments in a qualifying cash flow hedge or hedge of a net investment in a foreign operation, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the “Translation reserves” account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Accounts payable and accrued expenses” accounts in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or 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. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of RPS, USCS and SPCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

As at December 31, 2019, 2018 and 2017, the Group has no dilutive equity instruments as disclosed in Note 30 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. Financial Information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker; CODM) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Determining whether an Arrangement Contains Lease (Prior to the Adoption of PFRS 16). The Group uses its judgement in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Finance Lease - Group as Lessee (Prior to the Adoption of PFRS 16). The Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM) provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements, the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MPPCL also entered into a lease agreement with PSALM for the lease of land where a portion of the Masinloc Power Plant is situated.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and land. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 13).

Lease liabilities under finance leases recognized in the consolidated statements of financial position amounted to P142,007,061 as at December 31, 2018 (Notes 7, 31 and 32).

The combined carrying amounts of power plants and land under finance lease amounted to P168,266,667 as at December 31, 2018 (Note 13).

Operating Lease Commitments - Group as Lessor/Lessee (Prior to the Adoption of PFRS 16). The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Note 7).

Rent income recognized in the consolidated statements of income amounted to P12,274, P6,170 and P10,686 in 2019, 2018 and 2017, respectively (Notes 7 and 27).

Rent expense recognized in the consolidated statements of income amounted to P356,606 and P376,499 in 2018 and 2017, respectively (Notes 7 and 26).

Determining the Lease Term of Contracts with Renewal Options - Group as Lessee (Upon the Adoption of PFRS 16). The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group has several lease contracts that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgments estimates.

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The Group has determined that it has distinct performance obligations other than the sale of power such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Determining Whether the Group is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Group is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Group obtains control of the specified goods and services before it is transferred to the customer.

For the sale of power and retail and other power-related services, the Group has the obligation to provide a recurring service to the customer over the contract term and transfers control upon delivery, hence, the Group has determined that it is acting as principal in these revenue arrangements with customers.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group’s transactions in connection with its Concession Agreement with ALECO, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation. Management determined that the consideration receivable, in exchange for the fulfillment of the Group’s obligation under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the costs components of acquiring the right (Notes 3, 7 and 16).

Power Concession Right. The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms, and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in AHC and KWPP as joint ventures (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classification of Financial Instruments. The Group exercises judgments in classifying financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 32.

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 34).

Estimates and Assumptions
The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment of ECL on Trade and Other Receivables. The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of trade and other receivables are normally collected within one year. Moreover, based on the management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade and other receivables.

In 2019 and 2018, the Group recognized impairment on trade and other receivables amounting to P257,879 and P135,426, respectively. The allowance for impairment losses on trade and other receivables amounted to P2,828,484 and P2,574,423 as at December 31, 2019 and 2018, respectively. The carrying amount of trade and other receivables amounted to P29,989,449 and P33,046,686 as at December 31, 2019 and 2018, respectively (Note 9).

Assessment of ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2019**	2018
Cash and cash equivalents	*8*	**P79,954,187**	P28,511,862
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	*11*	**-**	54,009
Noncurrent receivables (included under "Other noncurrent assets" account)	*17*	**416,722**	265,298
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	*11, 17*	**6,689,975**	4,742,219
		P87,060,884	P33,573,388

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 11, 17, 19 and 32.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The Group assessed that no write-down of inventories to net realizable value is necessary as at December 31, 2019 and 2018.

The carrying amount of inventories amounted to P5,085,423 and P5,294,631 as at December 31, 2019 and 2018, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment and Right-of-Use Assets. The Group estimates the useful lives of property, plant and equipment and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and right-of-use assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment and right-of-use assets would increase the recorded cost of power sold and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P150,446,434 and P312,385,671 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P8,930,435 and P52,054,109 as at December 31, 2019 and 2018, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization, amounted to P166,517,296 as at December 31, 2019. Accumulated depreciation and amortization of right-of-use assets amounted to P5,286,478 as at December 31, 2019 (Note 14).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives, such as mining rights and computer software and licenses, amounted to P1,808,264 and P1,778,858 as at December 31, 2019 and 2018, respectively. Accumulated amortization of computer software and licenses amounted to P265,048 and P259,588 as at December 31, 2019 and 2018, respectively (Note 16). The amortization of mining rights will commence upon commercial operations.

Intangible assets with indefinite useful life amounted to P69,953,222 as at December 31, 2019 and 2018 (Notes 5 and 16).

Estimated Useful Lives of Intangible Assets - Power Concession Right. The Group estimates the useful life of power concession right based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as at the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The carrying amount of power concession right amounted to P1,009,785 and P881,283 as at December 31, 2019 and 2018, respectively (Notes 7 and 16).

Impairment of Goodwill with Indefinite Useful Life. The Group determines whether the goodwill acquired in a business combination is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of SMCGP Masin, SMCGP Transpower and SPHI (collectively referred to as Masinloc Group) has been determined based on the value in use using discounted cash flows. Assumptions used in the discounted cash flows include discount rate and terminal growth rate of 9.0% and 3.0%, respectively, in 2019 and 2018 (Notes 5 and 16).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

No impairment loss was recognized in 2019 and 2018 in relation to the goodwill arising from the acquisition of the Masinloc Group, which accounts for almost 100% of the goodwill in the consolidated statements of financial position as at December 31, 2019 and 2018.

The carrying amount of goodwill amounted to P69,953,222 as at December 31, 2019 and 2018 (Notes 5 and 16).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has determined that the acquisition of the Masinloc Group represents a business due to the presence of the integrated set of activities acquired while the acquisition of MPGC represents an asset acquisition since it does not meet the requirements of being a business as set out in PFRS 3.

The carrying amount of goodwill arising from business combinations amounted to P69,953,222 as at December 31, 2019, and 2018 (Notes 5 and 16).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with "coal resource" estimates, profitability of mining the coal during a defined operating period or "mine-life" is a necessary attribute of "coal reserve". Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted.

The Philippine Department of Energy (DOE) is the government agency authorized to implement Coal Operating Contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the 5-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable, and (iii) inferred. The DOE also prescribes the use of "total in-situ reserves" as the sum of positive reserves and two-thirds of probable reserve; and "mineable reserve" as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines (Note 15).

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities remain in the preparatory stages as at December 31, 2019 and 2018. All related costs and expenses from mining activities are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as at December 31, 2019 and 2018.

Deferred exploration and development costs amounted to P710,836 and P705,458 as at December 31, 2019 and 2018, respectively (Note 15).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 28).

Deferred tax assets from temporary differences amounted to P1,128,754 and P1,137,565 as at December 31, 2019 and 2018, respectively (Note 28).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment amounted to P102,402 and P70,265 as at December 31, 2019 and 2018, respectively (Note 13).

The combined carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives amounted to P331,390,973 and P327,829,991 as at December 31, 2019 and 2018, respectively (Notes 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 22 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P139,512 and P227,091 as at December 31, 2019 and 2018, respectively (Note 22).

ARO. The Group has ARO arising from power plants and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.572% to 12.640% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group's ARO, presented under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P578,398 and P287,075 as at December 31, 2019 and 2018, respectively.

5. Business Combination

On March 20, 2018, the Parent Company acquired 51% and 49% equity interests in SMCGP Masin from AES Phil Investment Pte. Ltd. ("AES Phil") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as "SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3; Units 1, 2 and 3 are collectively referred to as the "Masinloc Power Plant"), and the 10 MW battery energy storage system project (the "Masinloc BESS"), all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy is constructing a 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of the Group.

As part of the acquisition, the Parent Company also acquired SMCGP Transpower and SPHI. SMCGP Transpower was a subsidiary of The AES Corporation which provided corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provided energy marketing services to MPPCL. These services are currently being provided by the Parent Company to MPPCL.

With the acquisition by the Parent Company of the Masinloc Group (the "Transaction"), the Group aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for the Group to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction had resulted in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction in United States dollar (US$) was US$1,900,000 (equivalent to P98,990,000). The total consideration was paid in cash by the Parent Company using the proceeds of (a) US dollar-denominated long-term borrowings obtained from various financial institutions totaling to US$1,200,000 and (b) the issuance of RPS and obtaining advances from SMC amounting to US$650,000 and US$150,000, respectively (Notes 20, 21 and 23).

The Transaction gave the Parent Company 100% ownership and control based on PFRS 3, and was consolidated effective March 20, 2018.

The Parent Company has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized provisionary amounts of assets acquired and liabilities assumed at the acquisition date:

	2018
Assets	
Cash and cash equivalents	P1,656,243
Trade and other receivables	2,438,955
Inventories	2,378,065
Prepaid expenses and other current assets	1,691,735
Property, plant and equipment	62,274,180
Intangible assets	79,553
Other noncurrent assets	3,039,797
Liabilities	
Loans payable	(2,343,600)
Accounts payable and accrued expenses	(9,590,653)
Finance lease liabilities (including current portion)	(30,775)
Income tax payable	(139,445)
Long-term debt - net (including current maturities)	(31,951,895)
Deferred tax liabilities	(54,520)
Other noncurrent liabilities	(203,919)
Total Identifiable Net Assets Fair Value	P29,243,721

Final goodwill recognized as a result of acquisition follows:

	2018
Consideration transferred	P98,990,000
Non-controlling interest measured at proportionate interest in identifiable net assets	198,077
Total identifiable net assets	(29,243,721)
Goodwill	P69,944,356

The final amounts are same with the provisionary fair values used in 2018.

Trade and Other Receivables. The fair value of trade and other receivables amounted to P2,438,955. The gross amount of trade and other receivables is P2,503,458, of which P64,503 is expected to be uncollectible as at the acquisition date (Note 9).

From the date of acquisition to December 31, 2018, the Masinloc Group has contributed P19,459,316 and P2,781,309 of revenues and net income, respectively, to the Group’s results. For the year ended December 31, 2018, the consolidated revenues and net income of the Group would have been P124,949,444 and P8,508,703, respectively, had the Transaction been completed at the beginning of the reporting period.

Acquisition-related Costs

The Parent Company incurred acquisition-related costs of P52,191, P286,192 and P194,688 for the years ended December 31, 2019, 2018 and 2017, respectively, which have been included in the “Selling and administrative expenses” account in the consolidated statements of income.

Goodwill arising from the Transaction is attributable to the benefit of expected synergies, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

6. Segment Information

Operating Segments

The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and remain in the preparatory stages of mining activities (Note 15).

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, right-of-use assets, net of allowances, accumulated depreciation and amortization, and impairment, deferred exploration and development costs, and other noncurrent assets. Segment liabilities include all operating liabilities and consist primarily of loans payable, accounts payable and accrued expenses, lease liabilities, and other noncurrent liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P62,795,380, P54,474,012 and P43,404,148 for the years ended December 31, 2019, 2018 and 2017, respectively, represents more than 10% of the Group's total revenues.

For management reporting purposes, the Group’s operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Revenues																		
External	**P111,950,126**	P101,294,837	P70,494,762	**P23,095,136**	P18,808,010	P12,295,813	**P -**	P -	P -	**P14,817**	P -	P -	**P -**	P -	P -	**P135,060,079**	P120,102,847	P82,790,575
Inter-segment	**22,816,768**	19,056,846	14,258,684	**248,030**	197,729	98,501	**-**	-	-	**732,061**	656,388	309,330	**(23,796,859)**	(19,910,963)	(14,666,515)	**-**	-	-
	134,766,894	120,351,683	84,753,446	**23,343,166**	19,005,739	12,394,314	**-**	-	-	**746,878**	656,388	309,330	**(23,796,859)**	(19,910,963)	(14,666,515)	**135,060,079**	120,102,847	82,790,575
Costs and Expenses																		
Cost of power sold	**95,089,427**	83,744,243	57,089,457	**21,406,492**	17,285,808	11,694,501	**-**	-	-	**17,988**	69,647	-	**(24,755,707)**	(20,281,392)	(14,958,644)	**91,758,200**	80,818,306	53,825,314
Selling and administrative expenses	**6,640,576**	5,859,988	4,616,845	**509,513**	329,612	218,091	**8,814**	14,952	22,663	**2,177,718**	2,334,476	2,177,596	**(1,988,427)**	(2,428,818)	(2,346,214)	**7,348,194**	6,110,210	4,688,981
	101,730,003	89,604,231	61,706,302	**21,916,005**	17,615,420	11,912,592	**8,814**	14,952	22,663	**2,195,706**	2,404,123	2,177,596	**(26,744,134)**	(22,710,210)	(17,304,858)	**99,106,394**	86,928,516	58,514,295
Segment Result	**33,036,891**	30,747,452	23,047,144	**1,427,161**	1,390,319	481,722	**(8,814)**	(14,952)	(22,663)	**(1,448,828)**	(1,747,735)	(1,868,266)	**2,947,275**	2,799,247	2,638,343	**35,953,685**	33,174,331	24,276,280
Interest income	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**1,585,459**	661,212	460,958
Equity in net losses of associates and joint ventures	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**(391,054)**	(471,236)	(40,396)
Interest expense and other financing charges	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**(19,720,720)**	(17,616,056)	(13,244,581)
Other income (charges) - net	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**4,199,255**	(3,546,602)	2,944,165
Income tax expense	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**(7,263,116)**	(3,901,532)	(6,179,510)
Consolidated Net Income	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P14,363,509**	P8,300,117	P8,216,916

	As at and For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Other Information												
Segment assets	**P396,965,856**	P374,899,016	**P9,738,510**	P10,042,738	**P729,077**	P723,161	**P77,913,941**	P40,068,111	**(P13,129,176)**	(P17,782,705)	**P472,218,208**	P407,950,321
Investments and advances - net	**9,965,329**	10,056,639	**206,173**	187,823	**-**	-	**225,919,162**	199,115,545	**(225,089,904)**	(197,211,021)	**11,000,760**	12,148,986
Goodwill and other intangible assets - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**72,771,271**	72,613,363
Deferred tax assets	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**1,128,754**	1,137,565
Consolidated Total Assets	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P557,118,993**	P493,850,235
Segment liabilities	**P176,866,267**	P190,704,624	**P7,821,056**	P6,526,781	**P817,667**	P802,952	**P5,612,127**	P14,591,408	**(P27,634,355)**	(P29,989,516)	**P163,482,762**	P182,636,249
Long-term debt - net	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**226,799,041**	206,965,260
Income tax payable	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**214,776**	310,882
Deferred tax liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**13,197,658**	8,180,119
Consolidated Total Liabilities	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P -**	P -	**P403,694,237**	P398,092,510
Capital expenditures	**P8,164,696**	P5,989,791	**P -**	P -	**P -**	P -	**P1,952,791**	P59,962	**P -**	P -	**P10,117,487**	P6,049,753
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	**8,913,348**	9,211,114	**935,391**	57,095	**39**	3,164	**71,384**	75,749	**(2,506)**	(6,887)	**9,917,656**	9,340,235
Noncash items other than depreciation and amortization	**(2,684,309)**	4,226,984	**9,261**	19,917	**5**	(7)	**(955,997)**	529,511	**-**	-	**(3,631,040)**	4,776,405

**Noncash items other than depreciation and amortization include unrealized foreign exchange losses/(gains), equity in net losses of associates and joint ventures, impairment losses on trade and other receivables, property, plant and equipment and others, retirement cost (benefit), and loss on retirement of property, plant and equipment.*

7. Significant Agreements and Lease Commitments

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of the National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P26,417,124, P25,423,530 and P23,726,459 in 2019, 2018 and 2017, respectively (Note 25). SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305, which will expire on November 3, 2020 and January 25, 2020, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2021.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 34).

The lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P7,290,341, P8,320,739 and P9,074,226 in 2019, 2018 and 2017, respectively.

Maturity analysis of lease payments as at December 31, 2019 are disclosed in Note 31.

The future minimum lease payments as at December 31, 2018 are as follows:

	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$268,064	P14,094,815	P12,835,994	P26,930,809
More than 1 year and not later than 5 years	1,053,631	55,399,904	50,478,061	105,877,965
Later than 5 years	360,158	18,937,118	17,275,304	36,212,422
	1,681,853	88,431,837	80,589,359	169,021,196
Less: Future finance charges on lease liabilities	184,939	9,724,085	17,381,029	27,105,114
Present values of lease liabilities	US$1,496,914	P78,707,752	P63,208,330	P141,916,082

The present values of minimum lease payments as at December 31, 2018 are as follows:

2018	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$216,662	P11,392,106	P8,198,471	P19,590,577
More than 1 year and not later than 5 years	938,838	49,364,101	39,688,606	89,052,707
Later than 5 years	341,414	17,951,545	15,321,253	33,272,798
	US$1,496,914	P78,707,752	P63,208,330	P141,916,082

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of a 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P15,653 (Note 13).

The lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P3,311 and P66,511 in 2019 and 2018, respectively.

Upon adoption of PFRS 16, adjustment pertaining to MPPCL's land under lease arrangement amounted to P127,077 as at January 1, 2019. MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position, amounted to P108,147 as at December 31, 2019 (Note 14).

Maturity analysis of lease payments as at December 31, 2019 are disclosed in Note 31.

Future minimum lease payments under lease arrangement with the present value of future minimum lease payments as at December 31, 2018 follow:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than 1 year	P69,145	P69,068
More than 1 year and not later than 5 years	15,282	12,077
Later than 5 years	16,385	9,834
	100,812	90,979
Less: Future finance charges on finance lease liabilities	9,833	-
Present values of finance lease liabilities	P90,979	P90,979

c. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC, SCPC, SMELC, SMCPC and MPPCL each entered into separate MPAs with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC, SMCPC and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL, recognized under "Plant operations and maintenance, and other fees" account in the consolidated statements of income, amounted to P205,868, P325,188 and P146,550 in 2019, 2018 and 2017, respectively (Note 25).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

d. Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party RES and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P21,434,786, P11,181,239, P10,725,490 in 2019, 2018 and 2017, respectively (Note 25).

Revenues from retail sales to contestable customers amounted to P19,630,929, P15,703,941 and P9,504,126 in 2019, 2018 and 2017, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

e. Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)

On December 6, 2012, SPDC entered into a 5-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA, i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. The MOA was extended up to March 25, 2020.

Revenue from sale of capacity of the San Roque Power Plant amounted to P651,580, P412,595 and P944,139 in 2019, 2018 and 2017, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

f. Ancillary Service Procurement Agreement (ASPA)

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of 5 years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

Revenue from ancillary services of MPPCL amounted to P354,728 and P191,176 in 2019 and 2018, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

g. Coal Supply Agreements

SMEC, SMCPC, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

h. Distribution Wheeling Service (DWS) Agreements

As Retail Electricity Supplier (RES), SMELC, SCPC and MPPCL each entered into DWS Agreements with certain Distribution Utilities (DUs) for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to the contestable customers who have opted for a single billing arrangement as provided in the ERC Supplemental Switching Rules.

i. Lease Agreements

Group as Lessee
Information about significant leases for which the Group is a lessee that qualifies under PFRS 16 are as follows:

i. The Parent Company has lease agreements for the use of office spaces with San Miguel Properties, Inc., an entity under common control, and an external party for a period of 1 to 5 years which is renewable upon agreement between the parties.

ii. In November 2015, SCPC leased parcels of land from New Ventures Realty Corporation (NVRC), an entity under common control, for its Phase I Limay Greenfield Power Plant and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing annual escalation adjustments of rental rates starting on certain anniversary dates.

iii. On December 7, 2015, LETI leased a parcel of land from NVRC for its Phase II Limay Greenfield Power Plant for a period of 25 years from the effective date with an option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution. The lease agreement was assigned to SCPC pursuant to the sale of the Phase II Limay Greenfield Power Plant on June 22, 2017.

iv. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Amortization of right-of-use assets and rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P532 and P517 as at December 31, 2019 and 2018, respectively (Note 15).

v. In 2016, the SMCPC entered into an agreement with Kyron Landholdings Inc., an entity under common control, for the sub-lease of a parcel of land for its Davao Greenfield Power Plant. The initial term of the lease is for a period of 25 years with the option to renew further for 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.

vi. On December 13, 2017, SCPC leased a foreshore area aggregating to 465,967 square meters from the Department of Environment and Natural Resources (DENR) for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.

vii. On March 7, 2017, SCPC leased a parcel of land with approximate area of 66,000 square meters from PNOC Alternative Fuels Corporation for the construction of auxiliary facilities of the Limay Greenfield Power Plant. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase the annual rental by 3% and every 5 years, the amount equivalent to 5% of the re-appraised value shall be the new rental rate.

viii. On October 3, 2018, SMCPC leased a foreshore area aggregating to 68,779 square meters from the DENR for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.

ix. On December 5, 2019, MPGC leased a total of 1,654,400 square meters from E-Fare Investment Holdings Inc., an entity under common control, for a period of 24.5 years from the effective date with an option to renew this lease for another 25 years. The agreement contains a clause to increase annual rental by 5% starting from the first anniversary of the effective date.

Related right-of-use assets from these lease arrangements are disclosed in Note 14.

The Group also entered into various lease agreements that did not qualify under PFRS 16 for the recognition of right-of-use assets and lease liabilities due to the lease being short-term in nature.

SMEC has a lease agreement with Challenger Aero Air Corporation, an entity under common control, for the lease of aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016. The lease agreement expired on December 31, 2019. This does not qualify under PFRS 16 due to short-term in nature.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under “Trade and other receivables - net” or “Prepaid expenses and other current assets” accounts in the consolidated statements of financial position (Notes 9 and 11).

Maturity analysis of lease payments are disclosed in Note 31.

Non-cancellable operating lease rentals as at December 31, 2018 are payable as follows:

	2018
Not later than 1 year	P122,709
More than 1 year and not later than 5 years	418,987
Later than 5 years	2,457,247
	P2,998,943

Interest expense recognized in the consolidated statements of income amounted to P107,389 in 2019.

Rent expense recognized in the consolidated statements of income amounted to P323,372, P356,606 and P376,499 in 2019, 2018 and 2017, respectively (Notes 4 and 26).

Total cash outflows amounted to P400,328 in 2019.

Group as Lessor
In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. This agreement was subsequently amended, reducing the leased area to 340,646 square meters effective October 1, 2013. This was further amended reducing the leased area to 130,980 square meters and with a corresponding reduction in the monthly rental effective on December 1, 2016. On June 20, 2017, NVRC assigned its leasehold rights to Petron.

There are no restrictions imposed on these lease agreements such as those concerning dividends, additional debt and further leasing.

Future minimum lease receivables under the non-cancellable lease agreements are as follows:

Operating Lease Under PFRS 16	**2019**
Not later than 1 year	**P6,564**
One to two years	**2,768**
	P9,332

Operating lease under PAS 17	2018
Not later than 1 year	P6,373
More than 1 year and not later than 5 years	9,332
	P15,705

Rent income recognized under "Other income (charges)" account in the consolidated statements of income amounted to P12,274, P6,170 and P10,686 in 2019, 2018 and 2017, respectively (Notes 4 and 27).

j. Concession Agreement

The Parent Company entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 28, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

i. as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement and (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fee);

ii. if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529;

iii. on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and

iv. at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P856,028 and P649,631 as at December 31, 2019 and 2018, respectively. Interest expense on concession payable, included as part of "Interest expense and other financing charges" account in the consolidated statements of income, amounted to P5,700, P5,851 and P5,993 in 2019, 2018 and 2017, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P48,320, P40,813 and P30,426 in 2019, 2018 and 2017, respectively (Note 25).

Maturities of the carrying amount of concession payable are as follows:

	2019	2018
Not later than 1 year	**P2,859**	P2,700
More than 1 year and not later than 5 years	**13,227**	12,490
Later than 5 years	**80,884**	84,480
	P96,970	P99,670

Power concession assets consist of:

	Concession Rights	**Completed Projects/Others**	**Asset Under Construction (Contract Asset)**	**Total**
Cost				
January 1, 2018	P384,317	P346,965	P162,454	P893,736
Additions	-	105,067	35,145	140,212
Reclassification	-	144,481	(144,481)	-
December 31, 2018	384,317	596,513	53,118	1,033,948
Additions	-	206,397	-	206,397
December 31, 2019	**384,317**	**802,910**	**53,118**	**1,240,345**
Accumulated Amortization				
January 1, 2018	P58,930	32,462	-	91,392
Amortization	15,372	25,441	-	40,813
December 31, 2018	74,302	57,903	-	132,205
Amortization	15,372	32,948	-	48,320
December 31, 2019	**89,674**	**90,851**	**-**	**180,525**
Accumulated Impairment Losses				
January 1, 2018 and December 31, 2018	-	20,460	-	20,460
Impairment	-	29,575	-	29,575
December 31, 2019	**-**	**50,035**	**-**	**50,035**
Carrying Amount				
December 31, 2018	P310,015	P518,150	P53,118	P881,283
December 31, 2019	**P294,643**	**P662,024**	**P53,118**	**P1,009,785**

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PFRS 15 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P206,397, P140,212 and P123,336 in 2019, 2018 and 2017, respectively (Note 27).

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2019**	2018
Cash in banks and on hand		**P38,249,680**	P8,733,340
Short-term investments		**41,704,507**	19,778,522
	4, 31, 32	**P79,954,187**	P28,511,862

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P1,563,704, P626,195 and P374,509 in 2019, 2018 and 2017, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2019**	2018
Trade		**P21,637,478**	P21,402,654
Non-trade		**9,269,808**	8,055,865
Amounts owed by related parties	*7, 12, 21*	**1,910,647**	6,162,590
		32,817,933	35,621,109
Less allowance for impairment losses	*4*	**2,828,484**	2,574,423
	4, 31, 32	**P29,989,449**	P33,046,686

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day credit term or an agreed collection period. The balance of trade receivables is inclusive of VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses are as follows:

	2019	2018
Balance at beginning of year	**P2,574,423**	P2,451,818
Impairment losses during the year	**257,879**	135,426
Acquisition of subsidiaries	**-**	64,503
Cumulative translation adjustment and others	**(3,818)**	(77,324)
Balance at end of year	**P2,828,484**	P2,574,423

Impairment losses recognized in the consolidated statements of income under "Selling and administrative expenses" account amounted to P257,879, P135,426 in 2019 and 2018, respectively (Note 26). No impairment loss on trade and other receivables was recognized in 2017.

Non-trade receivables include the following:

a. Due from PSALM amounting to US$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM on September 4, 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court ("RTC") of Mandaluyong City (Note 34).

b. As at December 31, 2019 and 2018, SMEC has receivables for the cost of fuel, market fees and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P519,275 and P51,937, respectively. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P2,602,778 and P2,104,840 as at December 31, 2019 and 2018, respectively. The issue on excess capacity is the subject of ongoing cases (Note 34).

c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit), with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

   On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding amount due to SMEC. For the years ended December 31, 2019 and 2018, no payment was received from HCML and Caason. As at December 31, 2019 and 2018, total outstanding receivable from HCML amounting to P421,784 has been fully provided with allowance.

d. Advances made by SCPC for the construction of transmission assets on behalf of NGCP. The reimbursement shall take place after full payment and proper turnover of the transmission assets to NGCP.

e. The remaining balance mainly pertains to receivables from customers which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	**2019**	2018
Coal	*7*	**P3,501,675**	P4,436,348
Materials and supplies		**1,363,241**	687,336
Fuel oil	*21*	**152,571**	118,308
Other consumables		**67,936**	52,639
	4	**P5,085,423**	P5,294,631

There were no inventory write-downs to net realizable value for the years ended December 31, 2019, 2018 and 2017. Inventories charged to cost of power sold amounted to P31,362,501, P32,563,689 and P13,039,144 in 2019, 2018 and 2017, respectively (Note 25).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2019	2018
Input VAT		**P12,409,870**	P13,151,775
Prepaid tax		**7,497,760**	5,767,602
Restricted cash	*17*	**1,786,229**	1,045,598
Derivative assets not designated as cash flow hedge	*31, 32*	**676**	96,203
Investment in debt instruments		**-**	54,009
Prepaid rent and others	*7, 21*	**1,895,090**	1,646,529
		P23,589,625	P21,761,716

Input VAT consists of VAT on purchases of goods and services which can be offset against the output VAT payable (Note 19).

Prepaid tax consists of creditable withholding taxes and excess tax credits which can be used as a deduction against future income tax payable.

Restricted cash pertains to the Cash Flow Waterfall accounts of SCPC, SMCPC and MPPCL, maintained with a local Trust Company as required in its respective credit facilities as at December 31, 2019 and 2018, respectively (Note 20).

The methods and assumptions used to estimate the fair values of restricted cash and derivative assets not designated as cash flow hedge are discussed in Note 32.

Prepaid rent and others pertain to the following:

a. Prepaid rent of the Group from various short-term lease agreements amounted to P24,526 and P33,165 as at December 31, 2019 and 2018, respectively (Note 7).

b. PSALM monthly fee outage credits of SMEC, for the approved reduction in its future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2019 and 2018, amounted to P886,496 and P299,757 as at December 31, 2019 and 2018, respectively.

c. The Parent Company's prepaid legal and financial advisory fees relating to its financing activities.

12. Investments and Advances

Investments and advances consist of:

	2019	2018
Investments in Shares of Stock of Associates and Joint Ventures		
Cost		
Balance at beginning of year	**P8,583,462**	P8,583,462
Reclassification to investment in shares of stock of subsidiaries	**(964,570)**	-
Balance at end of year	**7,618,892**	8,583,462
Accumulated Equity in Net Losses		
Balance at beginning of year	**1,397,589**	927,355
Equity in net losses during the year	**392,355**	442,262
Share in other comprehensive loss (income) during the year	**517**	(1,395)
Adjustment to share in other comprehensive income in prior year	**-**	393
Adjustment to equity in net losses in prior year	**(1,301)**	28,974
Reclassification to investment in shares of stock of subsidiaries	**(10,491)**	-
Balance at end of year	**1,778,669**	1,397,589
	5,840,223	7,185,873
Advances	**5,160,537**	4,963,113
	P11,000,760	P12,148,986

Advances pertain to deposits made to certain land holding companies which will be applied to future stock subscriptions. In 2018, SMC bought ownership interests in certain land holding companies. Consequently, the related deposits to the said land holding companies amounting to P4,472,785 as at December 31, 2018, were reclassified to "Amounts owed by related parties" account and subsequently collected in 2019 (Notes 9 and 21).

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

a. Investment in shares of stock of associates

   i. OEDC

      In April 2013, SPGC and San Miguel Equity Investments, Inc. (SMEII), an entity under common control, entered into a Deed of Assignment of Subscription Rights whereby SMEII agreed to assign 35% ownership interest in OEDC to SPGC for a consideration of P8,750.

      Subscriptions payable amounted to P28,101 as at December 31, 2019 and 2018 (Note 21).

ii. MPGC

On January 25, 2019, the Parent Company subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing the Parent Company's ownership interest in MPGC from 49% to 73.58%. The Parent Company then subscribed to an additional 58,000,000 common shares out of the proposed increase in the authorized capital stock of MPGC at the subscription price of P100 per share, or total subscription amount of P5,800,000 on September 6, 2019, when the increase of the authorized capital stock of MPGC was approved by the Philippine SEC on the same date.

As at December 31, 2019, the Parent Company paid P6,530,057 of the total subscriptions. The additional capital infusion will finance in part the power plant project of MPGC.

Following these several investments and change in ownership interest in MPGC from 49% in 2018 to 89.54% in 2019, the Parent Company has obtained control over MPGC and has started consolidating MPGC as at January 25, 2019. This resulted in a reclassification of investment in an associate amounting to P954,079 to investment in shares of stock of subsidiaries.

Non-controlling interests pertains to the remaining interests held by Meralco PowerGen Corporation (10.05%) and by Zygnet Prime Holdings, Inc. (0.41%) in MPGC as at December 31, 2019.

The acquisition of MPGC is accounted for as an asset acquisition since the acquired set of assets and activities does not constitute a business as defined in PFRS 3.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

The table below summarizes the financial information of investment in shares of stock of associates which is accounted for using the equity method:

December 31, 2019 (Unaudited)

	OEDC
Country of Incorporation	**Philippines**
Current assets	**P574,039**
Noncurrent assets	**1,264,889**
Current liabilities	**(711,622)**
Noncurrent liabilities	**(577,416)**
Net assets	**P549,890**
Revenue	**P1,608,436**
Net income	**P50,187**
Other comprehensive loss	**(1,478)**
Total comprehensive income	**P48,709**
Share in net income	**P17,565**
Share in other comprehensive loss	**(P517)**
Carrying amount of investment	**P206,172**

December 31, 2018 (Audited)

	OEDC	MPGC
Country of Incorporation	Philippines	Philippines
Current assets	P314,130	P17,646
Noncurrent assets	1,211,646	1,961,419
Current liabilities	(370,926)	(32,074)
Noncurrent liabilities	(653,668)	-
Net assets	P501,182	P1,946,991
Revenue	P1,399,872	P -
Net income	P26,981	P739
Other comprehensive income	3,986	-
Total comprehensive income	P30,967	P739
Share in net income	P9,443	P362
Share in other comprehensive income	P1,395	P -
Carrying amount of investment	P189,124	P954,079

b. Investments in shares of stock of joint ventures

i. AHC and KWPP

The Parent Company, through PVEI, and Korea Water Resources Corporation (K-water) entered into a joint venture for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-water, 2,817,270 shares or 60% of the outstanding capital stock of AHC and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock.

Subsequently, AHC and KWPP each issued shares in favor of nominee directors of PVEI and K-water to complete their respective shareholding interest.

In accordance with the entry of PVEI into AHC and KWPP, K-water and PVEI are jointly in control of the management and operation of AHC and KWPP.

<u>AHC</u>
AHC was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the EPIRA.

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2019 (Audited)

	AHC	**KWPP**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P2,625,414**	**P2,347**
Noncurrent assets	**17,538,918**	**19,327**
Current liabilities	**(1,274,135)**	**(5,418)**
Noncurrent liabilities	**(11,670,214)**	**(15,157)**
Net assets	**P7,219,983**	**P1,099**
Revenue	**P1,586,882**	**P -**
Net losses/total comprehensive losses	**(P683,140)**	**(P60)**
Share in net losses/total comprehensive losses	**(P409,884)**	**(P36)**
Carrying amount of investment	**P5,633,167**	**P884**

December 31, 2018 (Audited)

	AHC	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P2,670,336	P1,959
Noncurrent assets	18,262,547	19,800
Current liabilities	(1,023,848)	(5,047)
Noncurrent liabilities	(12,005,911)	(15,554)
Net assets	P7,903,124	P1,158
Revenue	P1,575,268	P -
Net income (losses)/total comprehensive income (losses)	(P751,294)	P15
Share in net income (losses)/total comprehensive income (losses)	(P450,777)	P9
Carrying amount of investment	P6,043,051	P920

Investment in Shares of Stock of Subsidiaries

The following are the developments relating to the subsidiaries:

i. SCPC

In 2013, SCPC started the construction of its Phase I Limay Greenfield Power Plant (comprising of Units 1 and 2).

On June 22, 2017, SCPC acquired the Phase II Limay Greenfield Power Plant (comprising of Units 3 and 4) from LETI. Units 1, 2, 3 and 4 were successfully synchronized to the Luzon Grid in November 2016, May 2017, November 2017 and October 2018, respectively.

Commercial operations of Units 1, 2, 3 and 4 commenced on May 26, 2017, September 26, 2017, March 26, 2018 and July 26, 2019, respectively, following the completion of the testing and commissioning phase and the issuance of a Provisional Authority to Operate (PAO) and a Certificate of Compliance by the ERC in favor of SCPC for its 4 units.

ii. SMCPC

In 2013, SMCPC started the construction of its Davao Greenfield Power Plant. Units 1 and 2 were successfully synchronized to the Mindanao Grid in May 2016 and February 2017, respectively.

Units 1 and 2 started commercial operations on July 26, 2017 and February 26, 2018, respectively, following the completion of its testing and commissioning phase and the issuance of a PAO and a Certificate of Compliance by the ERC in favor of SMCPC for its 2 units.

iii. PVEI

In January 2017, PVEI granted shareholder advances amounting to US$31,800 (equivalent to P1,578,870) to its joint venture company, AHC. The advances bear an annual interest rate of 4.50% and are due on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

As at December 31, 2019 and 2018, the remaining balance of the shareholder advances amounted to US$2,281 (equivalent to P115,509) and payment was extended to December 31, 2020.

iv. PEGC

On July 13, 2018, PEGC, a wholly-owned subsidiary of the Parent Company, acquired the entire equity interest of ALCO Steam Energy Corporation (“ALCO”) in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total consideration of US$9,950 (equivalent to P532,425). MPPCL owns the 40% equity interests in Alpha Water.

Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant Complex in Zambales Province is located.

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost							
January 1, 2018		P250,544,937	P3,953,878	P681,983	P41,657	P38,515,764	P293,738,219
Acquisition of subsidiaries	5	35,253,504	878,145	1,759,579	899,543	23,483,409	62,274,180
Additions		46,237	41,018	116,445	21,708	5,824,345	6,049,753
Reclassifications/Retirements		28,549,042	1,272,794	103,559	514,958	(28,694,240)	1,746,113
Currency translation adjustments		408,114	9,539	21,294	9,253	183,315	631,515
December 31, 2018 (Audited)		314,801,834	6,155,374	2,682,860	1,487,119	39,312,593	364,439,780
Adjustments due to adoption of PFRS 16	*3, 14*	(214,342,544)	(127,682)	-	1,285	-	(214,468,941)
December 31, 2018 (as adjusted)		100,459,290	6,027,692	2,682,860	1,488,404	39,312,593	149,970,839
Additions		233,741	1,936,527	151,892	36,888	7,758,439	10,117,487
Reclassifications/Disposals		6,464,182	3,996,250	184,118	254,517	(8,612,138)	2,286,929
Currency translation adjustments		(1,797,767)	(27,912)	(92,459)	(36,607)	(1,043,641)	(2,998,386)
December 31, 2019		**105,359,446**	**11,932,557**	**2,926,411**	**1,743,202**	**37,415,253**	**159,376,869**
Accumulated Depreciation and Amortization							
January 1, 2018		42,378,811	86,325	302,123	9,653	-	42,776,912
Depreciation and amortization		8,769,755	98,339	288,548	37,761	-	9,194,403
Reclassifications/Retirements		(7,591)	(33,357)	(9,022)	6	-	(49,964)
Currency translation adjustments		125,967	1,031	5,440	320	-	132,758
December 31, 2018 (Audited)		51,266,942	152,338	587,089	47,740	-	52,054,109
Adjustments due to adoption of PFRS 16	*3, 14*	(46,938,033)	(24)	-	118	-	(46,937,939)
December 31, 2018 (as adjusted)		4,328,909	152,314	587,089	47,858	-	5,116,170
Depreciation and amortization		4,261,418	117,065	142,049	66,756	-	4,587,288
Reclassifications/Retirements		175,935	-	(158,048)	-	-	17,887
Currency translation adjustments		(735,867)	(17)	(50,767)	(4,259)	-	(790,910)
December 31, 2019		**8,030,395**	**269,362**	**520,323**	**110,355**	**-**	**8,930,435**
Accumulated Impairment Losses							
January 1, 2018		-	-	-	-	-	-
Impairment		-	-	70,265	-	-	70,265
December 31, 2018 (Audited)		-	-	70,265	-	-	70,265
Impairment		-	-	35,084	-	-	35,084
Currency translation adjustments		-	-	(2,947)	-	-	(2,947)
December 31, 2019		**-**	**-**	**102,402**	**-**	**-**	**102,402**
Carrying Amount							
December 31, 2018		P263,534,892	P6,003,036	P2,025,506	P1,439,379	P39,312,593	P312,315,406
December 31, 2019		**P97,329,051**	**P11,663,195**	**P2,303,686**	**P1,632,847**	**P37,415,253**	**P150,344,032**

a. The carrying amounts of power plants and land, classified as finance lease under PAS 17, amounted to P167,387,089 and P127,077, respectively, as at December 31, 2018 (Note 7). Upon adoption of PFRS 16, these were reclassified to "Right-of-use assets - net" account as at January 1, 2019 (Note 14).

b. The capitalized asset retirement costs, net of accumulated depreciation, amounted to P201,830 as at December 31, 2018 (Note 7). Upon adoption of PFRS 16, these were reclassified to "Right-of-use assets - net" account as at January 1, 2019 (Note 14).

c. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.

d. Capital projects in progress pertains to the following:

    i. Project of SMCPC for the construction of the Davao Greenfield Power Plant.

       Following the completion of Unit 1 and Unit 2 and the ERC grant of a PAO in favor of SMCPC for the 2 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

    ii. Projects of SCPC for the construction of Phases I and II Limay Greenfield Power Plant.

       Following the completion of Unit 1, Unit 2, Unit 3 and Unit 4 and the ERC grant of a PAO and a Certificate of Compliance in favor of SCPC for the 4 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

       The Unit 4 started its commercial operations on July 26, 2019.

    iii. Plant optimization and pumped-storage hydropower projects of SPDC.

    iv. Expenditures for the 500 kilovolts connection facilities in relation to the 600 MW Pagbilao power plant project of CLPPC.

    v. Ongoing construction of the Unit 3, Masinloc Power Plant of MPPCL and the 2 x 20 MW battery energy storage facility of SMCGP Philippines Energy.

    vi. Expenditures of MPGC related to the development of its power plant project to be constructed in Mariveles, Bataan.

    vii. Project of SMEC for the installation of roller press and rotary separators of the Sual Power Plant.

    viii. Project of SPPC for the combined cycle expansion of the Ilijan Power Plant.

e. Depreciation and amortization related to property, plant and equipment are recognized in the consolidated statements of income as follows:

	Note	**2019**	2018	2017
Cost of power sold	*25*	**P4,363,897**	P9,068,086	P5,811,941
Selling and administrative expenses	*26*	**223,391**	126,317	142,533
		P4,587,288	P9,194,403	P5,954,474

Total depreciation and amortization recognized in the consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P99,307, P93,670 and P22,451 in 2019, 2018 and 2017, respectively. The Group recognized impairment losses amounting to P35,084, P70,265 in 2019, 2018, respectively, and presented as part of "Other income (charges) - net" account in the consolidated statements of comprehensive income (Note 27).

The Group has borrowing costs amounting to P2,360,582, P1,830,949 and P1,362,871 which were capitalized in 2019, 2018 and 2017, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.28% to 9.09% and 3.50% to 7.39% in 2019 and 2018, respectively. The unamortized capitalized borrowing costs amounted to P5,990,728 and P2,906,057 as at December 31, 2019 and 2018, respectively (Notes 18 and 20)

14. Right-of-use Assets

The movements in right-of-use assets are as follows:

	Note	Land	Buildings and Improvements	Power Plants	Total
Cost					
Adjustment due to adoption of PFRS 16	*3*	**P1,347,957**	**P80,650**	**P167,387,089**	**P168,815,696**
Additions		**2,997,209**	**9,800**	**-**	**3,007,009**
Reclassifications		**(14,230)**	**-**	**-**	**(14,230)**
Currency translation adjustments		**(4,701)**	**-**	**-**	**(4,701)**
December 31, 2019		**4,326,235**	**90,450**	**167,387,089**	**171,803,774**
Accumulated Depreciation and Amortization					
Additions	*25, 26*	**52,189**	**36,713**	**5,186,403**	**5,275,305**
Reclassifications		**11,173**	**-**	**-**	**11,173**
December 31, 2019		**63,362**	**36,713**	**5,186,403**	**5,286,478**
Carrying Amount					
December 31, 2019		**P4,262,873**	**P53,737**	**P162,200,686**	**P166,517,296**

The carrying amounts of the IPPAs' power plants and MPPCL's land under lease arrangements amounted to P162,200,686 and P108,146, respectively, as at December 31, 2019 (Note 7).

The combined asset retirement costs of SCPC and SMCPC amounted to P461,741 as at December 31, 2019. In 2019, total adjustments due to remeasurements made on asset retirement costs amounted to P81,055.

15. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	Note	2019	2018
Balance at beginning of year		**P705,458**	P699,001
Additions		**4,479**	6,457
Reclassification	*7*	**532**	-
Adjustment due to adoption of PFRS 16	*3*	**367**	-
Balance at end of year	*4*	**P710,836**	P705,458

Deferred exploration and development costs comprise of expenditures which are directly attributable to the mining activities of DAMI, SEPC and BERI in relation to their respective COCs.

In 2010, SMEC acquired DAMI, SEPC and BERI resulting in the recognition of mining rights of P1,719,726 (Notes 4 and 16).

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68.30 million metric tons as at December 31, 2019 and 2018.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As at December 31, 2019 and 2018, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35.01 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 23.45 million metric tons as at December 31, 2019 and 2018.

Status of Operations

In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new 5-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new 5-year WPB which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring, instead of considering another moratorium extension, the submission of a 5-year WPB which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a 10-year extension of its COC No. 138 prior to its expiration on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a 5-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new 5-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first 2 years of the 5-year WPB submitted by DAMI, SEPC and BERI, focuses on the "removal of tension cracked materials to prevent landslide" within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;

b. The mining method is "contour stripping and progressive rehabilitation" and not the banned "open-pit mining";

c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and

d. The ban could be lifted as a result of court cases filed against it.

On March 2, 2019, DAMI, SEPC and BERI requested DOE for the consolidation of the 3 COCs for the following justifications:

a. The coal seams, although of varying thickness are continuous from one COC to another and deal for interconnected contour strip mining due to nearly horizontal deposition;

b. Sulfur content vary over a wide range from less than 1 percent in the lower section of the thick seam in DAMI to over 4 percent in the Maitum blocks of BERI, and would require blending of the coal products from one COC to another in order to meet the acceptable market specification; and

c. The coal resources and reserves vary greatly from one COC to another as the thickness and depth of the coal seams are variable, thus requiring stringent mine planning, operational efficiency and economic feasibility considerations.

However, on May 15, 2019, DAMI, SEPC and BERI clarified to the DOE that their request for consolidation of the 3 COCs was not meant to abandon nor withdraw the extension request of SEPC applied on September 21, 2018, having in mind the vested right provision of Section 21 of RA No. 11038 or the "Expanded National Integrated Protected Areas System Act of 2018". Thus, DAMI, SEPC and BERI altogether declared that it is seeking for:

a. The extension of COC of SEPC; and

b. The consolidation of COC No. 126 and COC No.138 of DAMI and BERI, respectively, based on the justification set forth in the March 2, 2019 letter.

On November 20, 2019, the DOE informed DAMI and BERI that the request for consolidation of COC No. 126 and COC No. 138 is in the process of evaluation of the proposed consolidated 5-year WPB.

On January 10, 2020, DAMI and BERI met with the Energy Resources Development Bureau representatives to discuss the proposed consolidated 5-year WPB and the documentary requirements to effect consolidation of the 2 COCs. As of March 9, 2020, DAMI and BERI are finalizing the documents for submission to DOE to facilitate the process of consolidation which is expected to be favorably considered and approved by the DOE.

On December 11, 2019, the DOE approved the 10-year extension and the initial 5-year WPB for COC No. 134 of SEPC.

As at December 31, 2019, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of its commercial operations.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as at December 31, 2019 and 2018.

16. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	Note	**2019**	2018
Goodwill	*4, 5*	**P69,953,222**	P69,953,222
Mining rights	*4, 15*	**1,719,726**	1,719,726
Power concession assets - net	*4, 7*	**1,009,785**	881,283
Computer software and licenses - net		**88,538**	59,132
		P72,771,271	P72,613,363

Goodwill
In November 2009 and March 2010, the Parent Company acquired 60% ownership interest in SMEC and SPDC, respectively. As a result of these transactions, the Parent Company recognized goodwill amounting to P8,349 and P517, respectively.

In March 2018, the Parent Company acquired ownership interest in the Masinloc Group. As a result of this transaction, the Parent Company recognized goodwill amounting to P69,944,356 (Note 5).

Impairment of Goodwill from Masinloc Group
Goodwill arising from the acquisition of Masinloc Group, which accounts for almost 100% of the total goodwill in the consolidated statements of financial position as at December 31, 2019 and 2018, is allocated to the cash generating unit of the Masinloc Group.

The recoverable amount of goodwill has been determined based on the value in use using discounted cash flows and was based on the following key assumptions:

- Cash flows were projected based on experience and actual operating results and covers forecast until 2024 in 2019 and 2045 in 2018 based on long range plans approved by management. Management believes that the forecast was justifiable due to long-term contracts with major customers. Cash flows beyond the forecasted period are extrapolated using a constant growth rate determined per cash-generating unit.

- A discount rate of 9.0% in 2019 and 2018 was applied based on the weighted-average cost of capital, which reflects the management's estimate of the risk specific to the cash-generating unit.

- Terminal growth rate of 3.0% in 2019 and 2018 was applied as the Group is in the process of increasing its capacity and upgrading its facilities and hence foresees growth in cash flows generated perpetually. This growth rate is consistent with the long-term average growth rate for the industry.

The values assigned to the key assumptions represent the management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of discount rate sensitivity, discount rate scenarios of 8.5% and 9.5% in 2019 are applied on the discounted cash flows analysis. Management believes that any reasonably possible change in the discount rate on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC, SPDC and the Masinloc Group for which the goodwill was attributed still exceeds its carrying amount as at December 31, 2019 and 2018.

Computer Software and Licenses
The movements in computer software and licenses are as follows:

	Note	**2019**	2018
Cost			
Balance at beginning of year		**P318,720**	P238,509
Reclassifications	*13*	**33,498**	-
Additions		**5,070**	-
Acquisition of subsidiaries	*5*	**-**	79,553
Cumulative translation adjustments		**(3,702)**	658
Balance at end of year		**353,586**	318,720
Accumulated Amortization			
Balance at beginning of year		**259,588**	154,849
Amortization	*26*	**6,743**	105,019
Cumulative translation adjustments		**(1,283)**	(280)
Balance at end of year		**265,048**	259,588
		P88,538	P59,132

17. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2019**	2018
Advances to suppliers and contractors		**P9,178,586**	P188,246
Restricted cash - net of current portion		**5,553,528**	4,442,553
Deferred input VAT - net of current portion		**795,448**	1,251,619
Noncurrent receivables		**240,727**	94,908
Amount owed by a related party	*21*	**175,995**	170,390
Derivative assets designated as cash flow hedge	*31, 32*	**75,518**	163,630
Other assets		**7,558**	3,216
	31, 32	**P16,027,360**	P6,314,562

Advances to suppliers and contractors include advance payments to contractors for the construction of the Group's power plant projects (Note 13).

Restricted cash comprises of: (a) SCPC's Cash Flow Waterfall accounts, amounting to P1,130,680 and P1,448,074 as at December 31, 2019 and 2018, respectively (Notes 11 and 20); (b) MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its credit facilities, totaling to P3,773,031 and P2,248,527 as at December 31, 2019 and 2018, respectively; (c) the amount received from IEMOP amounting to P491,242 as at December 31, 2019 and 2018, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 34); and (d) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for bill deposits which are refundable amounting to P158,540 and P254,690 as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the deferred input VAT mainly pertains to the input VAT relating to the construction of the power plants of the Group.

Amount owed by a related party pertains to the loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 21).

The methods and assumptions used to estimate the fair values of restricted cash, noncurrent receivables and derivative assets are discussed in Note 32.

18. Loans Payable

	Note	**2019**	2018
MPPCL		**P2,278,575**	P2,366,100
Parent Company		**-**	6,309,600
	31, 32	**P2,278,575**	P8,675,700

Loans payable mainly represent unsecured short-term US dollar-denominated amounts obtained from various local banks. Interest rates ranged from 3.64% to 4.30% and 3.61% to 4.10% in 2019 and 2018, respectively.

Interest expense on loans payable amounted to P180,975 and P216,394, inclusive of P15,957 capitalized in CPIP in 2018, for the years ended December 31, 2019 and 2018, respectively (Note 13).

On April 29, 2019, the Parent Company fully paid its US$120,000 short-term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance (Note 20). On August 17, 2018, SMCPC fully paid its P5,930,000 loans payable using the proceeds of its P21,300,000 term loan (Note 20).

19. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2019**	2018
Trade	*7*	**P16,577,635**	P14,967,636
Non-trade	*7*	**9,364,145**	7,248,252
Output VAT		**7,210,413**	6,855,666
Accrued interest	*7, 18, 20*	**1,338,520**	1,031,474
Amounts owed to related parties	*21*	**523,317**	586,606
Withholding and other accrued taxes		**323,355**	366,172
Premium on option liabilities	*32*	**46,871**	50,349
Derivative liabilities not designated as cash flow hedge	*32*	**18,636**	983
Retirement benefit liability	*22*	**-**	2,779
	31, 32	**P35,402,892**	P31,109,917

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Non-trade payables include liability relating to power rate adjustments, payables to contractors, concession payables and other payables to the Government excluding output VAT and withholding taxes.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

The methods and assumptions used to estimate the fair values of financial liabilities are discussed in Note 32.

20. Long-term Debt

Long-term debt consists of:

	Note	**2019**	2018
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (a)		**P29,669,514**	P -
Fixed interest rate of 6.7500% maturing in 2023 (b)		**14,853,800**	14,823,529
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (c)		**19,844,789**	19,812,609
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)		**14,914,240**	14,889,229
		79,282,343	49,525,367
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (e)		**14,596,547**	14,726,126
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (f) (g)		**34,924,385**	43,799,781
Subsidiaries			
Peso-denominated			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (h)		**41,273,836**	42,247,279
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (i)		**19,669,115**	20,060,138
Foreign currency-denominated			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (j) (k)		**27,835,019**	27,504,342
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (j) (k)		**9,217,796**	9,102,227
		147,516,698	157,439,893
	31, 32	**226,799,041**	206,965,260
Less current maturities		**6,036,174**	4,939,454
		P220,762,867	P202,025,806

a. The amount represents the first tranche of the Parent Company's P60,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P30,000,000, was issued and listed in the Philippine Dealing and Exchange Corp. (PDEx) for trading on April 24, 2019 at the issue price of 100% of face value.

   It comes in three series, with terms and interest rates as follows:

	Term	**Interest Rate Per Annum**
Series H Bonds	3 years, due 2022	6.8350%
Series I Bonds	5 years, due 2024	7.1783%
Series J Bonds	7 years, due 2026	7.6000%

   Interest on the Bonds shall be payable quarterly in arrears every April 24, July 24, October 24 and January 24 of each year starting July 24, 2019, as the first interest payment date.

   The proceeds were used by the Parent Company for partial refinancing of existing loan obligations and/or re-denomination of US dollar-denominated obligations (remaining US$150,000 term loan, used for Masinloc acquisition, and US$120,000 short-term loan), investments in power-related assets and for payment of transaction-related fees, costs and expenses.

   Unamortized debt issue costs amounted to P330,486 as at December 31, 2019. Accrued interest and interest expense amounted to P333,971 and P1,470,885, respectively, as at and for the year ended December 31, 2019.

b. The amount represents the second tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration (the "Series G" Bonds). The Series G Bonds, with an aggregate principal amount of P15,000,000, were issued and listed in the PDEx for trading on August 17, 2018 at the issue price of 100% of face value with a 5-year term, due 2023, and interest rate of 6.7500%.

   Interest on the Series G Bonds shall be payable quarterly in arrears every February 17, May 17, August 17 and November 17 of each year starting November 17, 2018, as the first interest payment date.

   The proceeds were used by the Parent Company to refinance its outstanding shareholder advances, to partially refinance the US$500,000, 5-year term loan obtained in March 2018 and for payment of transaction-related expenses (Note 5).

   Unamortized debt issue costs amounted to P146,200 and P176,471 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P101,260 and P99,000 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,012,500 and P376,875 in 2019 and 2018, respectively.

c. The amount represents the first tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P20,000,000, was issued and listed in the PDEx for trading on December 22, 2017 at the issue price of 100% of face value. It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series D Bonds	5 years, due 2022	5.3750%
Series E Bonds	7 years, due 2024	6.2500%
Series F Bonds	10 years, due 2027	6.6250%

Interest on the Bonds shall be payable quarterly in arrears every March 22, June 22, September 22 and December 22 of each year starting March 22, 2018 as the first interest payment date.

Proceeds from the issuance were used by the Parent Company to refinance its P20,000,000 short-term loans obtained from local banks in 2017.

Unamortized debt issue costs amounted to P155,211 and P187,391 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P23,945 and P23,536 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,176,795, P1,170,258 and P29,420 in 2019, 2018 and 2017, respectively.

d. The amount represents the Parent Company's fixed rate bonds issued with an aggregate amount of P15,000,000. The Bonds were issued and listed in the PDEx on July 11, 2016 at the issue price of 100% of face value in three series with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series A Bonds	5 years, due 2021	4.3458%
Series B Bonds	7 years, due 2023	4.7575%
Series C Bonds	10 years, due 2026	5.1792%

Interest is payable quarterly in arrears every January 11, April 11, July 11 and October 11 of each year starting October 11, 2016, as the first interest payment date.

The net proceeds were used on July 25, 2016 to refinance the US$300,000 short-term loan provided by a local bank of which the proceeds were used for the redemption of the US$300,000 bond in January 2016.

Unamortized debt issue costs amounted to P85,760 and P110,771 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P138,222 and P127,503 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P708,349 in 2019, 2018 and 2017.

e. The amount represents the remaining balance of a P15,000,000, fixed rate 7-year Term Loan Facility availed by the Parent Company on April 26, 2017 from a local bank. Interest is payable quarterly in arrears on the last day of the agreed interest period. Principal repayment shall be in 14 semi-annual installments starting at the end of the first year from drawdown date. The proceeds were used to fund the payment of the remaining US$300,000 out of the US$700,000 term loan.

Unamortized debt issue costs amounted to P103,453 and P123,874 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P182,936 and P184,802 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,038,326, P1,043,088 and P455,995 in 2019, 2018 and 2017, respectively.

f. The amount represents the remaining balance of a US$500,000, 5-year credit facility agreement with a foreign financial institution availed by the Parent Company on March 15, 2018. The proceeds were used to partially finance the acquisition of the Masinloc Group (Note 5).

On April 30, 2019, the Parent Company fully paid the remaining balance of US$150,000 out of the US$500,000 term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance.

Unamortized debt issue costs and accrued interest amounted to P176,169 and P18,622, respectively, as at December 31, 2018. Interest expense amounted to P151,821 and P750,552 in 2019 and 2018, respectively.

g. The amount represents the US$700,000 floating interest term loan availed by the Parent Company from a syndicate of foreign banks on March 16, 2018. The US$700,000 is divided into Facility A Loan amounting to US$200,000 maturing on March 12, 2021 and Facility B Loan amounting to US$500,000 maturing on March 13, 2023. The proceeds were used to partially finance the acquisition of the Masinloc Group (Note 5).

Unamortized debt issue costs amounted to P520,115 and P717,050 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P11,922 and P19,092 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,463,614 and P1,117,855 in 2019 and 2018, respectively.

h. The amount represents the remaining balance of the P42,000,000 and P2,000,000 drawn by SCPC on June 28, 2017 and January 31, 2018, respectively, from a P44,000,000, 12-year Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks dated June 22, 2017. The proceeds were used mainly by SCPC for the following purposes:

   i. the settlement of the US$360,000 short-term loan availed on May 8, 2017 from a local bank;

   ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant from LETI; and

   iii. the repayment of advances from the Parent Company.

Unamortized debt issue costs amounted to P626,164 and P702,720 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P25,575 and P18,493 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P2,786,827, P2,840,950 and P1,390,948 (inclusive of P437,109, P948,070 and P872,289 capitalized in CPIP) in 2019, 2018 and 2017, respectively.

i. The amount represents the remaining balance of the P20,322,000 and P978,000 drawn by SMCPC in tranches on August 17, 2018 and July 31, 2019, respectively, from a P21,300,000, 12-year OLSA with a syndicate of local banks, signed on August 9, 2018. The loan is payable in 48 quarterly installments up to August 2030. The proceeds were used mainly by SMCPC for the following purposes:

   i. the repayment in full of the P5,930,000 short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant;

   ii. the partial financing of the remaining works for the project;

   iii. the repayment of advances from the Parent Company; and

   iv. the payment of transaction-related fees and expenses.

   Unamortized debt issue costs amounted to P334,993 and P261,862 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P159,917 and P154,037 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,574,840 and P595,144 (inclusive of P28,198, and P7,029 capitalized in CPIP) in 2019 and 2018, respectively.

j. The amount represents the US$259,200 total outstanding loan drawn in tranches by MPPCL from its Omnibus Refinancing Agreement (ORA), dated December 28, 2012, with local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL on August 22, 2007. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on January 23, 2023.

   Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P15,167 and P5,055, and P26,957 and P9,728 as at December 31, 2019 and 2018, respectively. Accrued interest pertaining to fixed and floating interest tranche amounted to P80,992 and P23,676, and P94,777 and P31,592, as at December 31, 2019 and 2018, respectively. Interest expense on fixed and floating interest tranche amounted to P590,810 and P181,198 (inclusive of P336,666 and P103,253 capitalized in CPIP, respectively) and P498,955 and P166,318 (inclusive of P276,934 and P92,311 capitalized in CPIP, respectively) in 2019 and 2018, respectively.

k. The amount represents the US$481,558 total outstanding loan drawn in tranches by MPPCL from its Omnibus Expansion Financing Agreement (OEFA) dated December 1, 2015, with local banks, to finance the construction of the additional 335 MW (gross) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on December 15, 2030.

   Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P338,757 and P96,487, and P375,611 and P123,648, as at December 31, 2019 and 2018, respectively. Accrued interest pertaining to fixed and floating interest tranche amounted to P171,354 and P39,495, and P148,110 and P48,756, as at December 31, 2019 and 2018, respectively. Interest expense on fixed and floating interest tranche amounted to P1,111,141 and P299,158, capitalized in CPIP, and P637,012 and P209,698, (inclusive of P353,560 and P116,389 capitalized in CPIP) in 2019 and 2018, respectively.

Valuation Technique for Peso-denominated Bonds
The market value was determined using the market comparison technique. The fair values are based on PDEx. The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P86,716,963 and P47,499,734 as at December 31, 2019 and 2018, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

The debt agreements of the Parent Company, SCPC, SMCPC and MPPCL impose a number of covenants including, but not limited to, maintenance of certain financial ratios throughout the duration of the term of the debt agreements. The terms and conditions of the debt agreements also contain negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries, SCPC, SMCPC and MPPCL to create or have outstanding any security interest upon or with respect to any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries, SCPC, SMCPC and MPPCL to secure any indebtedness, subject to certain exceptions.

The loans of SCPC and SMCPC are secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC and SMCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCPC. The loans of MPPCL obtained from its ORA and OEFA are secured by real estate and chattel mortgages on all present assets (purchased under its asset purchase agreement, and all its rights in a land lease agreement, with PSALM) and all future assets as defined in its loan agreements.

As at December 31, 2019 and 2018, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	2019	2018
Balance at beginning of year	**P2,992,252**	P1,271,299
Additions	**549,248**	1,560,440
Acquisition of subsidiaries	**-**	572,065
Currency translation adjustments	**(18,272)**	34,658
Capitalized amount	**(46,464)**	(21,037)
Amortization	**(718,916)**	(425,173)
Balance at end of year	**P2,757,848**	P2,992,252

Repayment Schedule
The annual maturities of the long-term debt are as follows:

	Gross Amount				
Year	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Debt Issue Costs**	**Net**
2020	US$64,901	P3,286,273	P2,955,892	P205,991	P6,036,174
2021	269,378	13,639,975	9,894,142	309,353	23,224,764
2022	49,723	2,517,704	27,729,564	399,588	29,847,680
2023	676,554	34,257,322	23,292,184	784,918	56,764,588
2024	29,306	1,483,889	34,259,804	315,739	35,427,954
2025 to thereafter	350,896	17,767,618	58,472,522	742,259	75,497,881
	US$1,440,758	**P72,952,781**	**P156,604,108**	**P2,757,848**	**P226,799,041**

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 31.

21. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at December 31:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*24, 26*	**2019**	**P453,498**	**P777,521**	**P135,865**	**P74,397**	On demand or 30 days;	Unsecured;
		2018	483,003	925,639	87,768	29,339	non-interest bearing	no impairment
	11, 17	**2019**	**-**	**-**	**676**	**-**	1 year; non-	Unsecured;
		2018	-	-	96,203	-	interest bearing	no impairment
Entities under Common Control	*7, 9, 10, 19, 24, 25, 26*	**2019**	**3,036,199**	**1,667,408**	**633,217**	**4,294,378**	On demand or 30 days;	Unsecured;
		2018	2,697,651	1,077,826	5,150,603	526,290	non-interest bearing	no impairment
	19	**2019**	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured;
		2018	-	-	-	492	non-interest bearing	
Associates	*9, 12, 19, 24*	**2019**	**1,253,058**	**9,416**	**369,603**	**29,813**	On demand or 30 days;	Unsecured;
		2018	996,108	16,647	117,229	29,936	non-interest bearing	no impairment
	9, 17	**2019**	**13,624**	**-**	**213,753**	**-**	9 years;	Unsecured;
		2018	13,342	-	250,581	-	interest bearing	no impairment
Joint Venture	*9, 27*	**2019**	**30,281**	**312,233**	**2,472**	**-**	30 days;	Unsecured;
		2018	30,395	86,700	7,653	-	non-interest bearing	no impairment
	9, 12	**2019**	**5,367**	**-**	**132,402**	**-**	92 days;	Unsecured;
		2018	15,138	-	131,928	-	interest bearing	no impairment
Associates of Entities under Common Control	*7, 9, 10, 24*	**2019**	**933,917**	**-**	**199,301**	**1,150**	30 days;	Unsecured;
		2018	893,024	-	162,488	-	non-interest bearing	no impairment
Others	*9, 19, 24*	**2019**	**2,238,738**	**-**	**400,859**	**51,458**	On demand or 30 days;	Unsecured;
		2018	1,832,837	-	424,730	1,041	non-interest bearing	no impairment
		2019	**P7,964,682**	**P2,766,578**	**P2,088,148**	**P4,451,688**		
		2018	P6,961,498	P2,106,812	P6,429,183	P587,098		

a. Amounts owed by related parties consist of trade and other receivables, derivative assets and security deposits (Notes 9, 11 and 17).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC (Notes 12 and 19).

c. Amounts owed by associates mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 9 and 17).

d. Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" account in the consolidated statements of financial position (Notes 9, 12 and 27).

e. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2019**	2018	2017
Short-term employee benefits		**P113,813**	P103,911	P81,537
Retirement cost (benefit)	*22*	**4,171**	(1,451)	1,398
		P117,984	P102,460	P82,935

22. Retirement Plans

The Parent Company, SMEC, MPPCL, SMCGP Transpower and SPHI have unfunded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability are determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

The following table shows reconciliation of the net defined benefit retirement obligation and its component:

	2019	2018
Balance at beginning of year	**P227,091**	P78,104
Benefit obligation of newly-acquired subsidiaries	**-**	188,411
Recognized in Profit or Loss		
Current service cost	**20,268**	31,740
Interest expense	**10,686**	14,070
Settlement gain	**(167,442)**	(13,285)
	(136,488)	32,525
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	**30,491**	1,779
Changes in financial assumptions	**2,739**	(33,342)
	33,230	(31,563)
Others		
Cumulative translation adjustment	**17,412**	(22,956)
Transfer from other plans	**-**	598
Transfer to other plans	**-**	(598)
Benefits paid	**(1,733)**	(17,430)
	15,679	(40,386)
Balance at end of year	**P139,512**	P227,091

Defined benefit retirement obligation included as part of "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position, amounted to P139,512 and P227,091 as at December 31, 2019 and 2018, respectively (Note 19).

Settlement gain mainly pertains to the difference of the settlement price and the retirement benefits obligation of the resigned employees of a subsidiary. Due to the settlement of the retirement benefit obligation of a subsidiary, related reserve for retirement plan and translation reserves amounting to P28,626 and (P333), respectively, was charged to retained earnings.

Retirement costs recognized in the consolidated statements of income by the Parent Company amounted to P16,563, P13,400 and P12,104 in 2019, 2018 and 2017, respectively (Notes 25 and 26).

Retirement costs (benefits) recognized in the consolidated statements of income by the subsidiaries amounted to (P153,051), P19,125 and P549 in 2019, 2018 and 2017, respectively (Notes 25 and 26).

The equity reserve for retirement plan as at December 31, 2019 and 2018, includes the Group's and an associate's accumulated net actuarial gains and losses recognized in other comprehensive income, net of tax, amounted to P63,403 and (P8,052), respectively.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2019	2018
Discount rate	**4.61% - 5.25%**	7.13% - 7.51%
Salary increase rate	**5.00%**	6.50% - 7.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the defined benefit retirement obligation ranges from 5.9 to 8.2 years and 6.2 to 21 years as at December 31, 2019 and 2018, respectively.

Sensitivity Analysis

As at December 31, 2019 and 2018, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2019		2018	
	1% Increase	**1% Decrease**	1% Increase	1% Decrease
Discount rate	**(P10,484)**	**P12,224**	(P15,985)	P18,719
Salary increase rate	**12,129**	**(10,599)**	17,666	(15,384)

Risks and Management of Risks

The defined benefit retirement obligation exposes the Group to actuarial risks, such as longevity risk and interest rate risk.

The defined benefit retirement obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit retirement obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit retirement obligation. Also, benefit claims under the defined benefit retirement obligation will be paid directly by the Group when they become due.

23. Equity

Capital Stock
As at December 31, 2019 and 2018, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of subscribed capital stock, amounting to P1,250,004, and net of subscription receivable, amounting to P187,500, as at December 31, 2019 and 2018.

The number of shares subscribed is 1,250,004,000 common shares as at December 31, 2019 and 2018.

Equity Reserves
In September 2010, the Parent Company acquired the remaining 40% non-controlling ownership interest of SMC in SMEC and SPDC. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

In July 2018, PEGC acquired the 60% non-controlling ownership interest of ALCO in Alpha Water. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

In January 2019, the Parent Company subscribed to the remaining unissued common shares of MPGC, thereby increasing its equity ownership from 49% to 73.58%. In September 2019, The Parent Company's equity ownership was further increased to 89.54% as a result of an additional subscription to the increase in the authorized capital stock of MPGC (Note 12). The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

Retained Earnings
The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P3,012,216 and P667,627 as at December 31, 2019 and 2018, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

There were no cash dividend declarations to stockholders during the years ended December 31, 2019, 2018 and 2017.

Parent Company
In 2018 and 2017, reversals of the remaining appropriated retained earnings from the appropriations that was approved by the BOD in 2015 for the debt servicing of redenominated US$700,000 loan, amounted to P3,580,000 and P1,154,000, respectively.

Total appropriated retained earnings of the Parent Company amounted to P3,580,000 as at December 31, 2017. There were no appropriations of retained earnings of the Parent Company in 2019 and 2018.

SMEC, SPPC and SPDC
On December 18, 2017, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings amounting to P2,585,000, P3,514,050 and P474,000, respectively, for the fixed monthly PSALM payments, pursuant to their IPPA Agreements.

On December 21, 2018, the BOD of SPPC approved the appropriation of retained earnings amounting to P2,685,700 for the fixed monthly PSALM payments, pursuant to its IPPA Agreement. On the same date, the BOD of SPDC approved the re-appropriation of its remaining P1,566,600 appropriated retained earnings, initially intended for San Roque Optimization pumped-storage project, for the fixed monthly PSALM payments of SPDC, pursuant to its IPPA Agreement.

On December 18, 2019, the BOD of SPDC approved the appropriation of retained earnings amounting to P733,400 for the fixed monthly PSALM payments, pursuant to its IPPA Agreements.

In 2018, the appropriations reversed by SMEC and SPDC amounted to P290,000 and P67,400, respectively.

In 2019, the total appropriations utilized and reversed by SMEC, SPPC and SPDC amounted to P6,149,300, P9,158,600 and P759,000, respectively.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P14,075,050, P29,408,550 and P27,080,250 as at December 31, 2019, 2018 and 2017, respectively.

<u>USCS</u>
The Parent Company issued and listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US$600,000	**P26,933,565**

Amount in Philippine Peso pertains to proceeds net of directly attributable transaction costs.

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

On November 7, 2019 (the "Step-Up Date"), the Parent Company completed the redemption of the US$300,000 USCS issued on May 7, 2014 (the "US$300,000 USCS"), equivalent to P15,183,000 on redemption date, pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US$300,000 USCS, dated September 27, 2019. The redemption price of the US$300,000 USCS includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The difference between the price paid and the US$300,000 USCS amounted to P2,072,934 and was recognized as part of the "Equity reserves" account in the consolidated statements of financial position as at December 31, 2019.

The US$300,000 USCS was redeemed using in part the proceeds of the US$500,000 SPCS issued on April 25, 2019.

Distributions to USCS Holders
Details of distributions paid to USCS holders are as follows:

	2019	2018	2017
February	**P757,133**	P746,068	P720,611
May	**837,321**	830,491	799,583
August	**758,435**	767,981	729,868
November	**830,478**	870,750	824,142
	P3,183,367	P3,215,290	P3,074,204

RPS
On March 16, 2018, the Parent Company issued the RPS at an issue price of 100% amounting to US$650,000 (equivalent to P32,751,570, net of issuance costs) in favor of SMC, the Security Holder.

The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. The Security Holder shall have the right to receive distribution at the rate of 6.25% per annum, payable quarterly in arrears every March 16, June 16, September 16 and December 16 of each year commencing on June 16, 2018. The Parent Company has a right to defer this distribution under certain conditions.

The proceeds were used to partially finance the acquisition of the Masinloc Group by the Parent Company (Note 5).

Distribution to RPS Holder
Details of distributions paid to RPS holder are as follows:

	2019	2018
March	**P530,512**	P -
June	**527,363**	543,156
September	**525,992**	536,758
December	**512,891**	541,277
	P2,096,758	P1,621,191

SPCS

The Parent Company issued and listed on the SGX-ST the following SPCS:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Issue price	Amount of SPCS Issued	Amount in Philippine Peso
November 5, 2019	May 5 and November 5 of each year	5.95% per annum	May 5, 2025	100.000%	US$500,000	P24,834,696
July 3, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	102.052%	300,000	15,440,347
April 25, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	100.000%	500,000	25,610,522
					US$1,300,000	**P65,885,565**

Amount in Philippine Peso pertains to proceeds net of directly attributable transaction costs.

The US$300,000 SPCS issued in July 2019 (the "Additional Securities") was issued at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities are consolidated into and form a single series with the US$500,000 SPCS issued in April 2019 (the "Original Securities"), bringing the total securities to US$800,000 (the "US$800,000 SPCS"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price.

The SPCS were offered for sale and were sold mainly offshore and to a limited number of qualified buyers in the Philippines. Hence, the offer and sale of the SPCS qualified as an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulations Code was required to be filed with the Philippine SEC.

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of the Parent Company with no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on Step-Up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds were used by the Parent Company for the redemption of the US$300,000 USCS in November 2019 and will be applied for the repayment of indebtedness, for general corporate purposes, including capital expenditures and investments in power-related assets and for the development of BESS projects.

On January 21, 2020, the Parent Company issued another US$600,000 SPCS (the "US$600,000 SPCS"), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The US$600,000 SPCS was listed in the SGX-ST on January 22, 2020. The net proceeds from the issue of the US$600,000 SPCS will be applied by the Parent Company for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

Distributions to SPCS Holders

On October 24, 2019, the Parent Company paid distributions amounting to US$26,000 (equivalent to P1,923,629, inclusive of accrued distributions from April 25 to July 2, 2019 amounting to P190,760) to the holders of the US$800,000 SPCS.

24. Revenues

Revenues consist of:

	Note	**2019**	2018	2017
Sale of power	*6, 21*	**P111,950,126**	P101,294,837	P70,494,762
Retail and other power-related services	*6, 7, 21*	**23,095,136**	18,808,010	12,295,813
Others		**14,817**	-	-
		P135,060,079	P120,102,847	P82,790,575

Other revenue pertains to operations and maintenance services provided by a subsidiary to an entity under common control (Note 21).

25. Cost of Power Sold

Cost of power sold consist of:

	Note	**2019**	2018	2017
Coal, fuel oil and other consumables	*10, 21*	**P31,362,501**	P32,563,689	P13,039,144
Energy fees		**26,417,124**	25,423,530	23,726,459
Power purchases		**21,434,786**	11,181,239	10,725,490
Depreciation and amortization	*13, 14, 16*	**9,651,522**	9,108,899	5,842,367
Plant operations and maintenance, and other fees	*21, 22*	**2,892,267**	2,540,949	491,854
	6, 7	**P91,758,200**	P80,818,306	P53,825,314

26. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	Note	**2019**	2018	2017
Taxes and licenses		**P1,239,190**	P1,171,370	P945,406
Outside services		**1,191,920**	658,604	189,268
Salaries, wages and benefits	*21, 22*	**1,148,933**	820,552	708,162
Management fees	*21*	**780,902**	798,039	664,493
Donations		**486,702**	231,992	303,426
Repairs and maintenance		**424,624**	292,251	126,906
Corporate special program		**376,454**	309,220	349,667
Rent	*4, 7, 21*	**323,373**	356,606	376,499
Depreciation and amortization	*6, 13, 14, 16*	**266,134**	231,336	222,564
Impairment losses on trade receivables	*9*	**257,879**	135,426	-
Travel and transportation		**234,156**	184,140	132,869
Advertising and promotions		**150,300**	51,821	70,772
Professional fees		**131,296**	524,726	136,397
Supplies		**109,951**	120,342	210,687
Insurance		**12,842**	38,260	19,198
Miscellaneous		**213,538**	185,525	232,667
		P7,348,194	P6,110,210	P4,688,981

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

27. Other Income (Charges)

Other income (charges) consist of:

	Note	**2019**	2018	2017
Foreign exchange gains (losses) - net	*31*	**P2,839,579**	(P5,315,726)	(P632,416)
PSALM monthly fees reduction	*7*	**1,170,542**	1,615,181	3,283,745
Construction revenue	*4, 7*	**206,397**	140,212	123,336
Gain on sale of property, plant and equipment	*13*	**1,402**	-	-
Loss on retirement of equipment	*13*	**(66)**	(34,869)	-
Impairment losses on property, plant and equipment	*13*	**(35,084)**	(70,265)	-
Construction cost	*4, 7*	**(206,397)**	(140,212)	(123,336)
Miscellaneous income - net	*4, 7, 13, 21, 32*	**222,882**	259,077	292,836
		P4,199,255	(P3,546,602)	P2,944,165

Miscellaneous income recognized in 2019, 2018 and 2017 mostly pertain to management income, rent income, marked-to-market gain on derivatives, utilities income and sale of fly ash to related parties (Notes 4, 7, 13, 21 and 32).

28. Income Taxes

The components of income tax expense are as follows:

	Note	**2019**	2018	2017
Current	*29*	**P2,256,733**	P2,931,295	P2,003,146
Deferred		**5,006,383**	970,237	4,176,364
		P7,263,116	P3,901,532	P6,179,510

The movements in deferred tax assets (liabilities) - net are as follows:

2019	**Balance at January 1**	**Adjustments Due to Adoption of PFRS 16**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Others**	**Balance at December 31**
Allowance for impairment losses on trade receivables	**P422,117**	**P -**	**P77,339**	**P -**	**P -**	**P499,456**
Defined benefit retirement obligation	**95,299**	**-**	**(31,950)**	**-**	**-**	**63,349**
Difference of amortization of borrowing costs over payment and others	**53,067**	**-**	**38,709**	**-**	**(23,700)**	**68,076**
Difference of depreciation and other related expenses over monthly lease payments	**(7,623,074)**	**13,671**	**(5,090,481)**	**-**	**-**	**(12,699,884)**
Equity reserve for retirement plan	**9,247**	**-**	**-**	**(9,148)**	**-**	**99**
Net loss on cash flow hedges	**790**	**-**	**-**	**(790)**	**-**	**-**
	(P7,042,554)	**P13,671**	**(P5,006,383)**	**(P9,938)**	**(23,700)**	**(P12,068,904)**

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade receivables	P458,043	P40,628	P -	(P76,554)	P422,117
Defined benefit retirement obligation	13,303	9,758	-	72,238	95,299
Difference of amortization of borrowing costs over payment and others	(1,410,812)	1,588,000	-	(124,121)	53,067
Difference of depreciation and other related expenses over monthly lease payments	(5,077,847)	(2,608,623)	-	63,396	(7,623,074)
Equity reserve for retirement plan	10,128	-	(881)	-	9,247
Net loss on cash flow hedges	-	-	790	-	790
	(P6,007,185)	(P970,237)	(P91)	(P65,041)	(P7,042,554)

The deferred taxes are reported in the consolidated statements of financial position as follows:

	2019	2018
Deferred tax assets	**P1,128,754**	P1,137,565
Deferred tax liabilities	**(13,197,658)**	(8,180,119)
	(P12,068,904)	(P7,042,554)

As at December 31, 2019, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2019	December 31, 2022	P10,808,566	P43,730
Year 2018	December 31, 2021	5,757,427	60,608
Year 2017	December 31, 2020	7,893,653	38,005
		P24,459,646	P142,343

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2019	2018	2017
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	**10.92%**	15.11%	18.06%
Availment of optional standard deduction and others	**(7.34%)**	(13.13%)	(5.14%)
Effective income tax rate	**33.58%**	31.98%	42.92%

29. Registrations and License

Registrations with the Board of Investments (BOI)

i. In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the NGCP. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCPC's request on the further extension of the ITH reckoning date from July 2016 to September 2017 was likewise approved by the BOI on December 5, 2018. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

ii. On September 20, 2016, LETI (formerly LPPC) was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LETI as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LETI is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LETI's BOI registrations.

    In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LETI to SCPC. On July 13, 2018, BOI granted the request of SCPC to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 and Unit 4 commenced on March 26, 2018.

    On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPC, SCPC and LETI, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories Imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPC and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

    On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories Imported by BOI Registered New and Expanding Enterprises". The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SCPC for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

iii. SMEC, SPDC and SPPC are registered with the BOI as administrator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.

iv. On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-pioneer Status.

v. On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 600 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for 3 years from June 2017 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On May 27, 2014, the BOI approved MPPCL's request to move the start of its commercial operation and the reckoning date of the ITH entitlement from June 2017 to December 2018. On June 17, 2015, the BOI subsequently granted MPPCL's requests to downgrade the registered capacity from 600 MW to 300 MW.

   On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10 MW BESS Project on a pioneer status. The BESS Facility provides 10 MW of interconnected capacity and enhances the reliability of the Luzon grid using the *Advancion* energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for 6 years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration. The ITH period for the 10 MW BESS of MPPCL commenced on December 1, 2018.

vi. On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20 MW Kabankalan *Advancion* Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for 6 years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). On November 27, 2019, SMCGP Philippines Energy filed a request with the BOI to move the reckoning date of the ITH entitlement from July 2019 to July 2021. The said request for extension is still under evaluation by the BOI. The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.

vii. On April 24, 2019, MPGC was registered with Freeport Area of Bataan (FAB) as engaged in business of producing and generating electricity, processing fuels alternative for power generation, among others. As FAB enterprise, MPGC will operate a 4 x 150 MW power plant. As such, FAB granted MPGC certain incentives that include, among others, an ITH for 4 years for each unit effective on the committed date of start of commercial operations or actual date of start of commercial operations, whichever is earlier.

viii. On November 28, 2019, the BOI has approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. Each registered site was granted with certain incentives including ITH, among others.

<u>License Granted by the ERC</u>
On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA, which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another 5 years from August 22, 2016 up to August 21, 2021.

30. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	**P14,370,482**	P8,281,774	P8,216,916
Distributions to RPS holder for the year	**(2,094,049)**	(1,710,194)	-
Distributions to SPCS holders for the year	**(2,875,170)**	-	-
Distributions to USCS holders for the year	**(2,887,771)**	(3,229,781)	(3,076,042)
Net income attributable to common shareholders of the Parent Company (a)	**6,513,492**	3,341,799	5,140,874
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004	1,250,004
Basic/Diluted Earnings Per Share (a/b)	**P5.21**	P2.67	P4.11

As at December 31, 2019, 2018 and 2017, the Group has no dilutive debt or equity.

31. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, restricted cash, noncurrent receivables, loans payable, long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group, such as call spread swaps, currency forwards and commodity swaps, are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Philippine SEC and/or the PDEx.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

Interest Rate Risk Table
The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2019	**< 1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P2,955,892**	**P9,894,142**	**P27,729,564**	**P23,292,184**	**P34,259,804**	**P58,472,522**	**P156,604,108**
Interest rate	**6.2836% to 7.7521%**	**4.3458% to 7.7521%**	**5.3750% to 7.7521%**	**4.7575% to 7.7521%**	**6.2500% to 7.7521%**	**5.1792% to 7.7521%**	
Foreign currency-denominated (expressed in Philippine peso)	**2,467,402**	**2,637,690**	**1,891,416**	**6,708,224**	**1,116,430**	**13,367,781**	**28,188,943**
Interest rate	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**5.5959%**	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**818,871**	**11,002,285**	**626,288**	**27,549,098**	**367,459**	**4,399,837**	**44,763,838**
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P6,242,165	**P23,534,117**	**P30,247,268**	**P57,549,506**	**P35,743,693**	**P76,240,140**	**P229,556,889**

December 31, 2018	< 1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,436,391	P2,896,390	P9,834,640	P13,825,163	P23,232,643	P75,896,773	P128,122,000
Interest rate	6.2836% to 7.7521%	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated (expressed in Philippine peso)	1,949,148	2,477,048	2,606,388	1,838,347	6,814,415	12,221,564	27,906,910
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959% to 5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	648,209	822,347	11,381,301	609,014	36,444,509	4,023,222	53,928,602
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P5,033,748	P6,195,785	P23,822,329	P16,272,524	P66,491,567	P92,141,559	P209,957,512

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P447,638, P539,286 and nil in 2019, 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk
The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using derivative instruments, such as foreign currency forwards and call spread swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) and long-term call spread swaps are entered into to manage foreign currency risks relating to foreign currency-denominated obligations and long- term borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and

- changes in the timing of the hedged transactions.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents are as follows:

		December 31, 2019		December 31, 2018	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*8*	**US$1,194,851**	**P60,501,300**	US$289,050	P15,198,248
Trade and other receivables	*9*	**168,231**	**8,518,354**	157,125	8,261,638
Investment in debt instruments	*11*	**-**	**-**	1,027	54,009
		1,363,082	**69,019,654**	447,202	23,513,895
Liabilities					
Loans payable	*18*	**45,000**	**2,278,575**	165,000	8,675,700
Accounts payable and accrued expenses	*19*	**187,444**	**9,491,242**	153,013	8,045,444
Long-term debt (including current maturities)	*20*	**1,440,758**	**72,952,781**	1,556,400	81,835,512
Lease liabilities (including current portion)	*7*	**1,281,646**	**64,896,116**	1,498,645	78,798,731
Other noncurrent liabilities		**6,026**	**305,132**	3,456	181,705
		2,960,874	**149,923,846**	3,376,514	177,537,092
Net foreign currency-denominated monetary liabilities		**US$1,597,792**	**P80,904,192**	US$2,929,312	P154,023,197

The Group reported net gains (losses) on foreign exchange amounting to P2,839,579, (P5,315,726) and (P632,416) in 2019, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 27).

These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2019	**50.64**
December 31, 2018	52.58
December 31, 2017	49.93

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2019	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,145,911)**	**(P851,078)**	**P1,145,911**	**P851,078**
Trade and other receivables	**(71,623)**	**(146,744)**	**71,623**	**146,744**
	(1,217,534)	**(997,822)**	**1,217,534**	**997,822**
Loans payable	**-**	**45,000**	**-**	**(45,000)**
Accounts payable and accrued expenses	**82,441**	**162,712**	**(82,441)**	**(162,712)**
Long-term debt (including current maturities)	**700,000**	**1,230,758**	**(700,000)**	**(1,230,758)**
Lease liabilities (including current portion)	**1,280,252**	**897,570**	**(1,280,252)**	**(897,570)**
Other noncurrent liabilities	**3,157**	**5,079**	**(3,157)**	**(5,079)**
	2,065,850	**2,341,119**	**(2,065,850)**	**(2,341,119)**
	P848,316	**P1,343,297**	**(P848,316)**	**(P1,343,297)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2018	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P249,946)	(P214,066)	P249,946	P214,066
Trade and other receivables	(89,044)	(133,806)	89,044	133,806
Investment in debt instruments	-	(1,027)	-	1,027
	(338,990)	(348,899)	338,990	348,899
Loans payable	120,000	129,000	(120,000)	(129,000)
Accounts payable and accrued expenses	46,673	138,988	(46,673)	(138,988)
Long-term debt (including current maturities)	850,000	1,301,400	(850,000)	(1,301,400)
Finance lease liabilities (including current portion)	784,542	1,049,570	(784,542)	(1,049,570)
Other noncurrent liabilities	3,132	2,516	(3,132)	(2,516)
	1,804,347	2,621,474	(1,804,347)	(2,621,474)
	P1,465,357	P2,272,575	(P1,465,357)	(P2,272,575)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group, through SMC and the Parent Company, enters into commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

Commodity Swaps. Commodity swaps are used to manage the Group's exposures to volatility in prices of coal.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management:

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P79,954,187	P79,954,187	P79,954,187	P -	P -	P -
Trade and other receivables - net*	29,834,844	29,834,844	29,834,844	-	-	-
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	676	676	676	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	75,518	75,518	-	18,303	57,215	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	454,481	476,180	37,758	49,348	148,402	240,672
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	6,689,975	6,689,975	1,786,229	3,773,041	15	1,130,690
Financial Liabilities						
Loans payable	2,278,575	2,285,429	2,285,429	-	-	-
Accounts payable and accrued expenses*	26,971,319	26,971,319	26,971,319	-	-	-
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	18,636	18,636	18,636	-	-	-
Long-term debt - net (including current maturities)	226,799,041	297,630,115	19,478,009	35,982,049	149,303,961	92,866,096
Lease liabilities (including current portion)	124,202,679	148,521,035	29,381,197	29,640,341	64,063,341	25,436,156
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	930,437	982,408	49,730	20,210	410,180	502,288

Excluding statutory receivables and payables

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,511,862	P28,511,862	P28,511,862	P -	P -	P -
Trade and other receivables - net*	32,964,489	32,964,489	32,964,489	-	-	-
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	54,009	54,009	54,009	-	-	-
Derivative asset not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	96,203	96,203	96,203	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	163,630	163,630	-	-	163,630	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	344,440	371,445	79,143	39,427	115,903	136,972
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	4,742,219	4,742,219	1,045,598	3,696,621	-	-
Financial Liabilities						
Loans payable	8,675,700	8,695,949	8,695,949	-	-	-
Accounts payable and accrued expenses*	23,000,847	23,000,847	23,000,847	-	-	-
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	983	983	983	-	-	-
Long-term debt - net (including current maturities)	206,965,260	281,593,786	16,872,297	17,734,562	134,539,115	112,447,812
Finance lease liabilities (including current portion)	142,007,061	169,122,008	26,999,954	29,670,859	76,222,388	36,228,807
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	385,232	383,011	53,049	55,533	89,331	185,098

**Excluding statutory receivables and payables*

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

Financial information on the Group's maximum exposure to credit risk as at December 31, without considering the effects of other risk mitigation techniques, is presented below:

	Note	**2019**	2018
Cash and cash equivalents (excluding cash on hand)	*8*	**P79,951,936**	P28,509,806
Trade and other receivables - net*	*9*	**29,834,844**	32,964,489
Investment in debt instruments	*11*	**-**	54,009
Derivative assets not designated as cash flow hedge	*11*	**676**	96,203
Derivative assets designated as cash flow hedge	*17*	**75,518**	163,630
Noncurrent receivables	*9, 17*	**454,481**	344,440
Restricted cash	*11, 17*	**6,689,975**	4,742,219
		P117,007,430	P66,874,796

**Excluding statutory receivables*

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	Financial Assets at Amortized Cost					
December 31, 2019	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P79,951,936**	**P -**	**P -**	**P -**	**P -**	**P79,951,936**
Trade and other receivables	**-**	**29,834,844**	**2,828,484**	**-**	**-**	**32,663,328**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**676**	**-**	**676**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**75,518**	**75,518**
Noncurrent receivables	**-**	**454,481**	**-**	**-**	**-**	**454,481**
Restricted cash	**6,689,975**	**-**	**-**	**-**	**-**	**6,689,975**
	P86,641,911	**P30,289,325**	**P2,828,484**	**P676**	**P75,518**	**P119,835,914**

	Financial Assets at Amortized Cost					
December 31, 2018	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P28,509,806	P -	P -	P -	P -	P28,509,806
Trade and other receivables	-	32,964,489	2,574,423	-	-	35,538,912
Investment in debt instruments	54,009	-	-	-	-	54,009
Derivative asset not designated as cash flow hedge	-	-	-	96,203	-	96,203
Derivative assets designated as cash flow hedge	-	-	-	-	163,630	163,630
Noncurrent receivables	-	344,440	-	-	-	344,440
Restricted cash	4,742,219	-	-	-	-	4,742,219
	P33,306,034	P33,308,929	P2,574,423	P96,203	P163,630	P69,449,219

Receivables that are not credit impaired are considered high grade since the counterparties have strong financial capacity and business performance and with the lowest default risk.

The aging of trade and other receivables is as follows:

	December 31, 2019				December 31, 2018			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P11,055,287**	**P1,627,887**	**P852,680**	**P13,535,854**	P10,002,101	P1,283,318	P5,291,656	P16,577,075
Past due:								
1-30 days	**1,709,774**	**182,485**	**448,747**	**2,341,006**	2,454,136	145,195	419,050	3,018,381
31-60 days	**728,531**	**62,108**	**895**	**791,534**	1,022,937	101,006	9,972	1,133,915
61-90 days	**127,899**	**57,845**	**1,200**	**186,944**	280,786	173,005	6,749	460,540
Over 90 days	**7,899,428**	**7,339,194**	**569,368**	**15,807,990**	7,639,786	6,353,193	356,022	14,349,001
	P21,520,919	**P9,269,519**	**P1,872,890**	**P32,663,328**	P21,399,746	P8,055,717	P6,083,449	P35,538,912

The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

The Group's cash and cash equivalents, investment in debt instruments, derivative assets and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 46%, 45% and 52% of the Group's total revenues for the years ended December 31, 2019 and 2018, 2017, respectively.

The Group does not execute any credit guarantee in favor of any counterparty.

<u>Other Market Price Risk</u>
The Group's market price risk arises from its investments carried at fair value (financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

<u>Capital Management</u>
The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, RPS, USCS and SPCS (Notes 20 and 23).

The Group defines capital as capital stock, additional paid-in capital, RPS, USCS, SPCS and retained earnings, both appropriated and unappropriated. Other components of equity such as equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

There were no changes in the Group's approach to capital management during the year.

32. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2019		December 31, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P79,954,187**	**P79,954,187**	P28,511,862	P28,511,862
Trade and other receivables - net*	**29,834,844**	**29,834,844**	32,964,489	32,964,489
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	**-**	**-**	54,009	54,009
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	**676**	**676**	96,203	96,203
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	**75,518**	**75,518**	163,630	163,630
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**454,481**	**454,481**	344,440	344,440
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**6,689,975**	**6,689,975**	4,742,219	4,742,219
	P117,009,681	**P117,009,681**	P66,876,852	P66,876,852
Financial Liabilities				
Loans payable	**P2,278,575**	**P2,278,575**	P8,675,700	P8,675,700
Accounts payable and accrued expenses*	**26,971,319**	**26,971,319**	23,000,847	23,000,847
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**18,636**	**18,636**	983	983
Long-term debt - net (including current maturities)	**226,799,041**	**250,190,405**	206,965,260	209,582,998
Lease liabilities (including current portion)	**124,202,679**	**124,202,679**	142,007,061	142,007,061
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**930,437**	**937,562**	385,232	392,867
	P381,200,687	**P404,599,176**	P381,035,083	P383,660,456

**Excluding statutory receivables and payables*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Noncurrent Receivables and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and restricted cash, the carrying amounts approximate their fair values, since the effect of discounting is not considered material.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs. The fair values of the derivatives have been categorized as Level 2 in the fair value hierarchy.

Loans Payable and Accounts Payable and Accrued Expenses (excluding statutory payables and derivative liabilities). The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 3.09% to 4.52% and 5.22% to 7.06% as at December 31, 2019 and 2018, respectively. Discount rates used for foreign currency-denominated loans range from 1.59% to 1.97% and 2.46% to 2.97% as at December 31, 2019 and 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of peso-denominated bonds has been categorized as Level 1 and interest-bearing fixed-rate loans, lease liabilities and other noncurrent liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risks. The portfolio is a mixture of instruments including forwards and swaps.

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps

As at December 31, 2019 and 2018, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. The positive fair value of the call spread swaps, included under "Other noncurrent assets" account, amounted to P75,518 and P163,630 as at December 31, 2019 and 2018, respectively.

The table below provides for a reconciliation of the components of equity and other comprehensive income items, net of tax, resulting from cash flow hedge accounting as at December 31:

	2019	2018
Balance at beginning of year	**(P1,844)**	P -
Changes in fair value of derivatives	**(88,112)**	(24,747)
Amount reclassified to profit or loss:		
Interest expense and other financing charges	**50,836**	22,113
Reversal of prior year income tax benefit	**(790)**	-
Income tax benefit	**-**	790
Balance at end of year	**(P39,910)**	(P1,844)

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the years ended December 31, 2019 and 2018.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of foreign currency and commodity derivatives entered into by the Group.

Currency Forwards

The Group entered into short-term foreign currency forward contracts with aggregate notional amount of US$90,000 and US$5,000 as at December 31, 2019 and 2018, respectively. The negative fair value of these currency forwards amounted to P15,225 and P983 as at December 31, 2019 and 2018, respectively.

Commodity Swaps

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 233,000 metric tons and 60,000 metric tons as at December 31, 2019 and 2018, respectively. The net positive (negative) fair value of these commodity swaps amounted to (P2,735) and P96,203 as at December 31, 2019 and 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding derivatives amounting to (P264,824), P23,036 and P50,470 in 2019, 2018 and 2017, respectively (Note 27).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2019	2018
Balance at beginning of year	**P258,850**	P61,903
Net change in fair value of derivatives:		
Designated as accounting hedge	**(88,112)**	185,743
Not designated as accounting hedge	**(264,824)**	23,036
	(94,086)	270,682
Less fair value of settled instruments	**(151,644)**	11,832
Balance at end of year	**P57,558**	P258,850

33. Supplemental Cash Flows Information

The following table summarizes the changes in liabilities and equity arising from financing activities, including both changes arising from cash flows and non-cash changes:

	Loans Payable	**Long-term Debt**	**Lease Liabilities**	**USCS**	**SPCS**	**Total**
Balance as at January 1, 2019	**P8,675,700**	**P206,965,260**	**P142,007,061**	**P26,933,565**	**P -**	**P384,581,586**
Changes from financing cash flows						
Proceeds from borrowings	**9,179,550**	**34,834,600**	**-**	**-**	**-**	**44,014,150**
Proceeds from issuance of SPCS	**-**	**-**	**-**	**-**	**65,885,565**	**65,885,565**
Payments of USCS redemption	**-**	**-**	**-**	**(15,183,000)**	**-**	**(15,183,000)**
Payments of borrowings	**(15,436,350)**	**(12,406,504)**	**-**	**-**	**-**	**(27,842,854)**
Payments of lease liabilities	**-**	**-**	**(19,297,119)**	**-**	**-**	**(19,297,119)**
Total changes from financing cash flows	**(6,256,800)**	**22,428,096**	**(19,297,119)**	**(15,183,000)**	**65,885,565**	**47,576,742**
Adjustments due to adoption of PFRS 16	**-**	**-**	**1,450,467**	**-**	**-**	**1,450,467**
Effect of changes in foreign exchange rates	**(140,325)**	**(2,810,443)**	**(2,689,374)**	**-**	**-**	**(5,640,142)**
Other changes	**-**	**216,128**	**2,731,644**	**2,072,934**	**-**	**5,020,706**
Balance as at December 31, 2019	**P2,278,575**	**P226,799,041**	**P124,202,679**	**P13,823,499**	**P65,885,565**	**P432,989,359**

	Loans Payable	Long-term Debt	Lease Liabilities	RPS	Shareholder Advances	Total
Balance as at January 1, 2018	P5,930,000	P90,728,701	P154,793,690	P -	P -	P251,452,391
Changes from financing cash flows						
Proceeds from borrowings	41,937,600	106,026,200	-	-	7,789,500	155,753,300
Proceeds from issuance of RPS	-	-	-	32,751,570	-	32,751,570
Payments of borrowings	(41,510,000)	(22,112,232)	-	-	(8,013,750)	(71,635,982)
Payments of finance lease liabilities	-	-	(25,715,487)	-	-	(25,715,487)
Total changes from financing cash flows	427,600	83,913,968	(25,715,487)	32,751,570	(224,250)	91,153,401
Acquisition of subsidiaries	2,343,600	32,523,960	30,775	-	-	34,898,335
Effect of changes in foreign exchange rates	(48,000)	1,263,550	4,510,368	-	224,250	5,950,168
Other changes	22,500	(1,464,919)	8,387,715	-	-	6,945,296
Balance as at December 31, 2018	P8,675,700	P206,965,260	P142,007,061	P32,751,570	P -	P390,399,591

34. Other Matters

a. EPIRA
The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 7).

The EPIRA requires generation and DU companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2019 and 2018.

b. Contingencies
The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined.

i. Temporary Restraining Order (TRO) Issued to Meralco
SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction ("Petition") filed in the Supreme Court (SC) by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the SC issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the SC issued an order treating the Counter-Petition as in the nature of a third-party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the SC.

ii. *ERC Order Voiding WESM Prices*
Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "March 3, 2014 Order"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the ERC order. Other generators also requested the SC to stop the implementation of the ERC order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI, filed before the Court of Appeals (CA) a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 2014, March 27, 2014, and May 9, 2014 ("the 2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the CA on December 12, 2014.

After consolidating the cases, the CA, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a resolution dated March 22, 2018, the CA denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the CA dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the CA issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

The intervenors thereafter filed petitions for certiorari before the SC, First Division. Each were denied by the SC through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the CA committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,321,785, plus interest.

iii. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain its position that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the performance bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016 (the “June 27, 2016 RTC Order”), the RTC denied PSALM’s: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Illijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to the June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the CA seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction “against public respondent RTC and its assailed orders”. The CA, however, denied the petition filed by PSALM in its decision dated December 19, 2017 (“CA Decision”). In the CA Decision, the CA upheld the lower court’s issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the “CA Resolution”), the CA denied PSALM’s Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the SC praying for the reversal and nullification of the CA Decision. Said petition was denied by the SC in its resolution dated March 4, 2019 (the “March 4, 2019 SC Resolution”) due to lack of payment of the required fees and for PSALM’s failure to sufficiently show that the CA committed any reversible error in the challenged decision and resolution as to warrant the exercise of the Court’s discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the SC in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgement issued by the SC on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the CA, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although the CA dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "First CA Resolution"), the CA subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in 2022.

iv. *Criminal Cases*

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act ("RA No. 3019"), before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's Ilijan IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$60,000. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC
On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and TeaM Sual Corporation, relating to the illegal grant of the so-called “excess capacity” of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file an Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of the RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ’s Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

v. *Civil Cases*

SMEC
On June 17, 2016, SMEC filed with the RTC, Pasig City (“RTC Pasig”) a civil complaint for consignation against PSALM arising from PSALM’s refusal to accept SMEC’s remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant (“Sale of the Excess Capacity”). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and to Allow Future Consignation without Tender (“Omnibus Motion”). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration (“MR”) to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM’s Comment on August 13, 2018. To date, the said motion is still pending resolution.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this recusal, the resolution of the MR remains pending to date.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at December 31, 2019 and 2018, the total amount consigned with the RTC Pasig is P491,242, included under “Other noncurrent assets”, particularly “Restricted cash” account, in the consolidated statements of financial position.

c. Commitments
The outstanding purchase commitments of the Group amounted to P11,520,320 as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects as at December 31, 2019 is approximately P38,696,206.

d. Effects of Corona Virus Disease 2019 (COVID-19)
On March 8, 2020, under Proclamation 922, the President of the Philippines has declared a state of public health emergency throughout the Philippines due to the outbreak of the COVID-19.

The Group, being engaged in the power generation business, is not significantly affected by the aforesaid declaration since the Group will need to continue its operations as it is considered to be a provider of essential services.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Key Audit Matter

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter is addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Goodwill (P69,944 million)
Refer to Note 3, Significant Accounting Policies, Note 4, Significant Judgments, Estimates and Assumptions, Note 5, Business Combination to the consolidated financial statements, and Note 15, Goodwill and Intangible Assets.

The risk -
The Group recognized a significant amount of provisional goodwill arising from the acquisition of Masinloc Group. The annual impairment test on goodwill was significant to our audit since the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions including future cash flow projections, growth rate and discount rate.

Our response -
We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity and reasonableness of the discounted cash flow model used by the Group. This involved evaluating the models used and assumptions applied and comparing these assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, inflation and discount rates, as well as performing our own sensitivity analysis on the assumptions.
- We evaluated the adequacy of the disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. MKT 7333639
Issued January 3, 2019 at Makati City

March 11, 2019
Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(In Thousands)

	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 30, 31*	**P28,511,862**	P28,655,359
Trade and other receivables - net	*4, 7, 9, 20, 30, 31*	**33,046,686**	20,435,068
Inventories	*4, 7, 10, 20*	**5,294,631**	3,147,668
Prepaid expenses and other current assets	*7, 11*	**21,761,716**	17,791,915
Total Current Assets		**88,614,895**	70,030,010
Noncurrent Assets			
Investments and advances - net	*4, 12*	**12,148,986**	16,621,131
Property, plant and equipment - net	*4, 7, 13*	**312,315,406**	250,961,307
Deferred exploration and development costs	*4, 7, 14*	**705,458**	699,001
Goodwill and other intangible assets - net	*4, 5, 7, 14, 15*	**72,613,363**	2,594,136
Deferred tax assets	*4, 27*	**1,137,565**	1,316,926
Other noncurrent assets	*16, 20, 30, 31*	**6,314,562**	7,950,484
Total Noncurrent Assets		**405,235,340**	280,142,985
		P493,850,235	P350,172,995
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*17, 30, 31*	**P8,675,700**	P5,930,000
Accounts payable and accrued expenses	*18, 20, 30, 31*	**31,109,917**	31,074,714
Finance lease liabilities - current portion	*4, 7, 30, 31*	**19,659,645**	16,844,431
Income tax payable		**310,882**	151,906
Current maturities of long-term debt - net of debt issue costs	*19, 30, 31*	**4,939,454**	1,139,631
Total Current Liabilities		**64,695,598**	55,140,682
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*19, 30, 31*	**202,025,806**	89,589,070
Deferred tax liabilities	*27*	**8,180,119**	7,324,111
Finance lease liabilities - net of current portion	*4, 7, 30, 31*	**122,347,416**	137,949,259
Other noncurrent liabilities	*4, 7, 20, 21, 30, 31*	**843,571**	404,361
Total Noncurrent Liabilities		**333,396,912**	235,266,801
Total Liabilities		**398,092,510**	290,407,483

Forward

	Note	2018	2017
Equity	*22*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Redeemable perpetual securities		**32,751,570**	-
Undated subordinated capital securities		**26,933,565**	26,933,565
Equity reserves	*21*	**618,307**	761,647
Retained earnings		**31,901,779**	28,517,796
Total Equity		**95,757,725**	59,765,512
		P493,850,235	P350,172,995

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Thousands, Except Per Share Data)

	Note	**2018**	2017	2016
REVENUES	*5, 20, 23, 33*	**P120,102,847**	P82,790,575	P77,972,430
COST OF POWER SOLD	*24*	**80,818,306**	53,825,314	45,163,109
GROSS PROFIT		**39,284,541**	28,965,261	32,809,321
SELLING AND ADMINISTRATIVE EXPENSES	*25*	**6,110,210**	4,688,981	6,078,981
INCOME FROM OPERATIONS		**33,174,331**	24,276,280	26,730,340
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 13, 17, 18, 19*	**(17,616,056)**	(13,244,581)	(12,354,229)
INTEREST INCOME	*8*	**661,212**	460,958	200,502
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	*12*	**(471,236)**	(40,396)	(294,795)
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	*13*	**-**	-	116,357
OTHER INCOME (CHARGES) - Net	*7, 26*	**(3,546,602)**	2,944,165	(6,881,754)
INCOME BEFORE INCOME TAX		**12,201,649**	14,396,426	7,516,421
INCOME TAX EXPENSE	*27, 28*	**3,901,532**	6,179,510	3,365,759
NET INCOME		**P8,300,117**	P8,216,916	P4,150,662
Attributable to:				
Equity holders of the Parent Company	*29*	**P8,281,774**	P8,216,916	P4,150,662
Non-controlling interest		**18,343**	-	-
		P8,300,117	P8,216,916	P4,150,662
Earnings Per Common Share Attributable to Equity Holders of the Parent Company				
Basic/Diluted	*29*	**P2.67**	P4.11	P0.97

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Thousands)

	Note	**2018**	2017	2016
NET INCOME		**P8,300,117**	P8,216,916	P4,150,662
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan - net	*21, 27*	**30,682**	2,739	(10,723)
Share in other comprehensive income of an associate - net	*12*	**1,002**	-	-
		31,684	2,739	(10,723)
Items that may be reclassified to profit or loss				
Gain on exchange differences on translation of foreign operations		**145,256**	-	-
Net loss on cash flow hedges - net	*31*	**(1,844)**	-	-
		143,412	-	-
OTHER COMPREHENSIVE INCOME (LOSS) -Net of tax		**175,096**	2,739	(10,723)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P8,475,213**	P8,219,655	P4,139,939
Attributable to:				
Equity holders of the Parent Company		**P8,456,870**	P8,219,655	P4,139,939
Non-controlling interest		**18,343**	-	-
		P8,475,213	P8,219,655	P4,139,939

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Thousands)

		Equity Attributable to Equity Holders of Parent Company											
						Equity Reserves							
	Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
As of January 1, 2018, As previously reported (Audited)		**P1,062,504**	**P2,490,000**	**P -**	**P26,933,565**	**P785,279**	**P -**	**(P23,632)**	**P -**	**P28,517,796**	**P59,765,512**	**P -**	**P59,765,512**
Adjustments due to Philippine Financial Reporting Standards (PFRS) 15	*3*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(49,405)**	**(49,405)**	**-**	**(49,405)**
As of January 1, 2018, As adjusted		**1,062,504**	**2,490,000**	**-**	**26,933,565**	**785,279**	**-**	**(23,632)**	**-**	**28,468,391**	**59,716,107**	**-**	**59,716,107**
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,281,774**	**8,281,774**	**18,343**	**8,300,117**
Other comprehensive income (loss) - net of tax		**-**	**-**	**-**	**-**	**-**	**145,256**	**31,684**	**(1,844)**	**-**	**175,096**	**-**	**175,096**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**145,256**	**31,684**	**(1,844)**	**8,281,774**	**8,456,870**	**18,343**	**8,475,213**
Issuance of redeemable perpetual securities	*5, 22*	**-**	**-**	**32,751,570**	**-**	**-**	**-**	**-**	**-**	**-**	**32,751,570**	**-**	**32,751,570**
Non-controlling interest from acquisition of subsidiaries	*5*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**198,077**	**198,077**
Cash dividends		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,049)**	**(4,049)**
Acquisition of non-controlling interest	*12*	**-**	**-**	**-**	**-**	**(318,436)**	**-**	**-**	**-**	**(4,050)**	**(322,486)**	**(212,371)**	**(534,857)**
Share issuance costs		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,855)**	**(7,855)**	**-**	**(7,855)**
Distributions:													
Undated subordinated capital securities	*22*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,215,290)**	**(3,215,290)**	**-**	**(3,215,290)**
Redeemable perpetual securities	*22*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,621,191)**	**(1,621,191)**	**-**	**(1,621,191)**
Transactions with owners		**-**	**-**	**32,751,570**	**-**	**(318,436)**	**-**	**-**	**-**	**(4,848,386)**	**27,584,748**	**(18,343)**	**27,566,405**
As of December 31, 2018		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P26,933,565**	**P466,843**	**P145,256**	**P8,052**	**(P1,844)**	**P31,901,779**	**P95,757,725**	**P -**	**P95,757,725**
As of January 1, 2017		P1,062,504	P2,490,000	P -	P26,933,565	P785,279	P -	(P26,371)	P -	P23,425,647	P54,670,624	P -	P54,670,624
Net income		-	-	-	-	-	-	-	-	8,216,916	8,216,916	-	8,216,916
Other comprehensive income (loss) - net of tax	*21*	-	-	-	-	-	-	2,739	-	-	2,739	-	2,739
Total comprehensive income		-	-	-	-	-	-	2,739	-	8,216,916	8,219,655	-	8,219,655
Share issuance costs	*21*	-	-	-			-	-	-	(50,563)	(50,563)	-	(50,563)
Distributions:					-	-							
Undated subordinated capital securities	*22*	-	-	-	-	-	-	-	-	(3,074,204)	(3,074,204)	-	(3,074,204)
Transactions with owners		-	-	-	-	-	-	-	-	(3,124,767)	(3,124,767)	-	(3,124,767)
As of December 31, 2017		P1,062,504	P2,490,000	P -	P26,933,565	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512
As of January 1, 2016		P1,062,504	P2,490,000	P -	P26,933,565	P785,279	P -	(P15,648)	P -	P25,179,558	P56,435,258	P -	P56,435,258
Net income		-	-	-	-	-	-	-	-	4,150,662	4,150,662	-	4,150,662
Other comprehensive income (loss) - net of tax	*21*	-	-	-	-	-	-	(10,723)	-	-	(10,723)	-	(10,723)
Total comprehensive income		-	-	-	-	-	-	(10,723)	-	4,150,662	4,139,939	-	4,139,939
Cash dividends and distributions:													
Common	*22*	-	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)	-	(3,000,000)
Undated subordinated capital securities	*22*	-	-	-	-	-	-	-	-	(2,904,573)	(2,904,573)	-	(2,904,573)
Transactions with owners		-	-	-	-	-	-	-	-	(5,904,573)	(5,904,573)	-	(5,904,573)
As of December 31, 2016		P1,062,504	P2,490,000	P -	P26,933,565	P785,279	P -	(P26,371)	P -	P23,425,647	P54,670,624	P -	P54,670,624

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Thousands)

	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P12,201,649**	P14,396,426	P7,516,421
Adjustments for:				
Interest expense and other financing charges	*7, 17, 19*	**17,616,056**	13,244,581	12,354,229
Depreciation and amortization	*7, 13, 15, 24, 25*	**9,340,235**	6,064,931	6,341,931
Unrealized foreign exchange losses (gains) - net		**4,032,084**	(786,921)	7,446,813
Interest income	*8, 16*	**(661,212)**	(460,958)	(200,502)
Equity in net losses of associates and joint ventures	*12*	**471,236**	40,396	294,795
Impairment losses on trade and other receivables	*9, 25, 26*	**135,426**	-	1,210,451
Impairment losses on property, plant and equipment	*13, 26*	**70,265**	-	323,788
Loss on retirement of property, plant and equipment	*13*	**34,869**	-	-
Retirement benefit expense	*21*	**32,525**	12,653	8,388
Unrealized marked - to - market gain on derivatives	*31*	**(23,036)**	(61,903)	-
Impairment losses on concession assets		**-**	-	20,460
Gain on sale of property, plant and equipment	*13*	**-**	-	(116,357)
Operating income before working capital changes		**43,250,097**	32,449,205	35,200,417
Decrease (increase) in:				
Trade and other receivables - net	*9*	**(5,499,476)**	2,114,023	(657,993)
Inventories	*10*	**266,017**	(875,379)	(1,009,071)
Prepaid expenses and other current assets	*11*	**(9,936,971)**	(982,825)	(2,614,273)
Increase (decrease) in:				
Accounts payable and accrued expenses	*18*	**1,101,159**	(4,864,843)	5,130,812
Other noncurrent liabilities and others		**54,694**	14,521	49,479
Cash generated from operations		**29,235,520**	27,854,702	36,099,371
Interest income received		**687,752**	395,960	203,493
Income taxes paid		**(2,550,880)**	(1,242,012)	(2,640,580)
Interest expense and other financing charges paid		**(12,113,199)**	(5,163,304)	(3,182,682)
Net cash flows provided by operating activities		**15,259,193**	21,845,346	30,479,602

Forward

	Note	2018	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in other noncurrent assets		**P2,499,277**	(P6,867,810)	P1,227,455
Proceeds from sale of property, plant and equipment	*13*	**-**	54,184	13,820,388
Additions to deferred exploration and development costs	*14*	**(6,457)**	(5,622)	(3,831)
Additions to intangible assets	*7, 15*	**(140,210)**	(132,474)	(271,991)
Net additions to investments and advances	*12*	**(471,385)**	(416,073)	(5,927,312)
Acquisition of non-controlling interest		**(532,425)**	-	-
Additions to property, plant and equipment	*13, 17, 19*	**(6,049,753)**	(8,911,531)	(14,862,133)
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**(97,333,757)**	-	-
Net cash flows used in investing activities		**(102,034,710)**	(16,279,326)	(6,017,424)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debt	*19, 32*	**106,026,200**	77,000,000	30,684,375
Proceeds from short-term borrowings	*17, 32*	**41,937,600**	113,419,200	14,364,000
Proceeds from issuance of redeemable perpetual securities	*22*	**32,751,570**	-	-
Cash dividends paid	*22*	**-**	-	(3,000,000)
Cash dividends paid to previous holder of non-controlling interest		**(4,050)**	-	-
Payment of stock issuance costs		**(7,855)**	(50,563)	-
Distributions paid to redeemable perpetual securities		**(1,621,191)**	-	-
Distributions paid to undated subordinated capital securities holders	*22*	**(3,215,290)**	(3,074,204)	(2,904,573)
Payments of long-term debt	*19, 32*	**(22,112,232)**	(53,110,468)	(26,348,700)
Payments of finance lease liabilities	*7, 32*	**(25,715,487)**	(24,874,993)	(23,873,363)
Payments of short-term borrowings	*17, 32*	**(41,510,000)**	(107,782,255)	(14,155,500)
Net cash flows provided by (used in) financing activities		**86,529,265**	1,526,717	(25,233,761)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**102,755**	71,237	21,607
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(143,497)**	7,163,974	(749,976)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**28,655,359**	21,491,385	22,241,361
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P28,511,862**	P28,655,359	P21,491,385

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, lease, develop and dispose of all properties of every kind and description, and shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc. (PSE).

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 11, 2019.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Defined benefit retirement liability	Present value of the defined benefit retirement obligation

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership	
	2018	2017
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Corp. (SPDC)	**100**	100
SMC PowerGen Inc. (SPI)	**100**	100
Limay Power Generation Corporation [(a)]	**100**	100
SMC Consolidated Power Corporation (SCPC) [(b)]	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(c)]	**100**	100
Central Luzon Premiere Power Corp. (CLPPC) [(d)]	**100**	100
Limay Premiere Power Corp. (LPPC) [(d)]	**100**	100
PowerOne Ventures Energy Inc. (PVEI) [(e)]	**100**	100
Prime Electric Generation Corporation (PEGC) [(f)]	**100**	100
Oceantech Power Generation Corporation [(f)]	**100**	100
SMCGP Masin Pte. Ltd. (formerly Masin-AES Pte. Ltd. [MAPL]) [(g) (h) (m)]	**100**	-
Masinloc Energy Resources Inc. [(i)]	**100**	-
Power Ventures Generation Corporation [(i)]	**100**	-
TopGen Energy Development Inc.[(i)]	**100**	-
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp. (APEC)	**100**	100
SMC Power Generation Corp. (SPGC) [(j)]	**100**	100
Coal Mining		
Daguma Agro-Minerals, Inc. [(k)]	**100**	100
Sultan Energy Phils. Corp. [(k)]	**100**	100
Bonanza Energy Resources, Inc. [(k)]	**100**	100
Others		
Mantech Power Dynamics Services Inc.	**100**	100
Safetech Power Services Corp.	**100**	100
Ondarre Holding Corporation [(l)]	**100**	100
Grand Planters International, Inc.	**100**	100
Golden Quest Equity Holdings Inc. [(k)]	**100**	100
SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) [(g) (m)]	**100**	-
SMCGP Philippines Inc. (formerly AES Philippines, Inc. [API]) [(g) (n)]	**100**	-

(a) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2018.

(b) In May 2017, September 2017 and March 2018, SCPC started commercial operations of Units 1, 2 and 3, respectively, of its 4 x 150 megawatts (MW) Circulating Fluidized Bed (CFB) coal-fired power plant in Limay, Bataan (Phase I and II Limay Greenfield Power Plant) (Note 12).

(c) In July 2017 and February 2018, SMCPC started commercial operations of Units 1 and 2, respectively, of its 2 x 150 MW CFB coal-fired power plant in Malita, Davao (Davao Greenfield Power Plant) (Note 12).

(d) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2018.

(e) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation (KWPP) as joint ventures.

(f) Incorporated in 2017 and has not yet started commercial operations as of December 31, 2018.

(g) Acquired in March 2018 (Note 5).

(h) Indirectly owns, through its subsidiary, Masinloc Power Partners Co. Ltd (MPPCL) the Masinloc Power Plant (Note 5).

(i) Incorporated in 2018 and has not yet started commercial operations as of December 31, 2018.

(j) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc., (OEDC) as an associate.

(k) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2018.

(l) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2018.

(m) On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. (SMCGP Masin) and SMCGP Transpower Pte. Ltd. (SMCGP Transpower), respectively.

(n) On May 22, 2018, API changed its name to SMCGP Philippines Inc. (SPHI).

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interest pertained to the interest not held by the Parent Company in Alpha Water and Realty Services Corp. ("Alpha Water") for the period covering March 20, 2018 to July 13, 2018, which is indirectly owned by SMCGP Masin through its subsidiary, MPPCL. The non-controlling interest in Alpha Water was acquired in July 2018 by PEGC (Note 12).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of New and Amended Standards and Interpretation</u>
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Group has adopted the following PFRS starting January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- PFRS 9 (2014), *Financial Instruments,* replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

  PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Group adopted PFRS 9 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the ECL model in estimating impairment as at December 31, 2018 which resulted in a recognition of additional allowance for impairment of receivables amounting to P59,346.

  The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P28,655,359	P28,655,359
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	20,384,901	20,384,901
Derivative asset	Financial assets at fair value through profit or loss (FVPL)	Financial assets at FVPL	61,903	61,903
Noncurrent receivables	Loans and receivables	Financial assets at amortized cost	278,965	278,965
Restricted cash	Loans and receivables	Financial assets at amortized cost	4,805,175	4,805,175

Financial Assets. The Group continued to measure at fair value, all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- o Cash and cash equivalents, and trade and other receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.

Financial Liabilities. There are no changes in the classification and measurement of the Group's financial liabilities.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers,* and Standard Interpretation Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new and more comprehensive revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer.

  The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The impact of the adoption decreased retained earnings as of January 1, 2018 by P49,405. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

The following tables summarize the impact of adopting PFRS 15 on the Group's consolidated financial statements as of and for the year ended December 31, 2018.

Consolidated Statement of Financial Position

	As Reported	Adjustments	Amounts Without Adoption of PFRS 15
Assets			
Trade and other receivables - net	P33,046,686	P39,243	P33,085,929
Current Assets	88,614,895	39,243	88,654,138
Deferred tax assets	1,137,565	(6,351)	1,131,214
Noncurrent Assets	405,235,340	(6,351)	405,228,989
Total Assets	P493,850,235	P32,892	P493,883,127
Liabilities			
Current Liabilities	P64,695,598	P -	P64,695,598
Noncurrent Liabilities	333,396,912	-	333,396,912
Total Liabilities	398,092,510	-	398,092,510
Equity			
Retained earnings	31,901,779	32,892	31,934,671
Total Equity	95,757,725	32,892	95,790,617
Total Liabilities and Equity	P493,850,235	P32,892	P493,883,127

Consolidated Statement of Comprehensive Income

	As Reported	Adjustments	Amounts without Adoption of PFRS 15
Revenues	P120,102,847	(P20,743)	P120,082,104
Cost of Power Sold	80,818,306	-	80,818,306
Gross Profit	39,284,541	(20,743)	39,263,798
Income Before Income Tax	12,201,649	(20,743)	12,180,906
Income Tax Expense	3,901,532	(4,230)	3,897,302
Net Income	8,300,117	(16,513)	8,283,604
Total Comprehensive Income - Net of tax	P8,475,213	(P16,513)	P8,458,700

The adjustments are due to the effect of variable consideration in the determination of transaction price in the recognition of revenue from sale of power. Prior to the adoption of PFRS 15, the Group recognized revenue upon supply of power to customers based on invoiced amounts, net of value-added tax, and separately recorded a reduction in revenue for discounts when availed by qualified customers. Under PFRS 15, the Group recognizes a reduction in its revenue from sale of power for the amount of expected discounts to be given to customers on the same reporting period the revenue was earned. The discounts are estimated based on the historical data of customer's payment patterns and in accordance with the specific terms and conditions provided in the Group's power supply contract with the customer. Discounts are not recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized due to such discounts will not occur.

The Group recognizes revenue from contracts with customers when control is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled, excluding amounts collected on behalf of third parties.

Revenue from sale of power is recognized at the point in time when control is transferred to the customer, which is normally upon delivery. Further information on the new accounting policy for revenue recognition are discussed in the succeeding sections.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the Amendments to PAS 28, *Investments in Associates and Joint Ventures*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

Except as otherwise indicated, the adoption of the new and amended standards and interpretation did not have a material effect on the consolidated financial statements.

New and Amended Standards, Interpretation and Framework Not Yet Adopted

A number of new and amended standards, interpretation and framework are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards, interpretation and framework on the respective effective dates:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transition approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group plans to apply the new standard on the effective date using the modified retrospective approach. The cumulative effect of adopting PFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement of comparative information.

The Group is currently performing detailed assessment of the potential effect of the new standard. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate as of January 1, 2019, the composition of the lease portfolio at that date, the latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019 with early application permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- Long-term Interests (LTI) in Associates and Joint Ventures *(Amendments to PAS 28)*. The amendments require the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

The amendments are effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

  The amendment is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required subject to relevant transitional reliefs.

- Plan Amendment, Curtailment or Settlement *(Amendments to PAS 19, Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:

  - Previously Held Interest in a Joint Operation *(Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements).* The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

  - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (*Amendments to PAS 12).* The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

  - Borrowing Costs Eligible for Capitalization *(Amendments to PAS 23, Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted.

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (*Amendments to PFRS 3*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application is permitted.

- Definition of Material *(Amendments to PAS 1, Presentation of Financial Statements and PAS 8*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the IASB has completed 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.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments

Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

Financial Assets

Classification and Subsequent Measurement - Policy Applicable from January 1, 2018

The Group classifies its financial assets, at initial recognition, and subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refer to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed information is provided to management.

- the stated policies and objectives for the portfolio and the operations of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

For the purposes of the cash flow characteristics of financial assets, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial assets acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments, noncurrent receivables and restricted cash are included under this category (Notes 8, 9, 11, 16, 30 and 31).

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group has no financial assets at FVOCI.

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group’s derivative asset that is not designated as cash flow hedge is classified under this category (Notes 11, 30 and 31).

Classification and Subsequent Measurement - Policy Applicable before January 1, 2018

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets classified as AFS financial assets and HTM investments as of December 31, 2017.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives) with positive fair values, except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of “Interest income” account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group’s derivative asset that is not designated as cash flow hedge is classified under this category (Notes 16, 30 and 31).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and restricted cash are included under this category (Notes 8, 9, 16, 30 and 31).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liability that is not classified as cash flow hedge is classified under this category (Notes 18, 30 and 31).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 17, 18, 19, 30 and 31).

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

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

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

Policy Applicable from January 1, 2018

The Group recognizes allowance for ECL on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether financial assets at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Policy Applicable before January 1, 2018

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

<u>Classification of Financial Instruments between Liability and Equity</u>
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative Financial Instruments and Hedge Accounting
The Group uses derivative financial instruments, such as call spread swaps, currency forwards and commodity swaps to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives
The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in fair value or cash flows of the hedging instrument are expected to offset the changes in fair value or cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivative assets accounted for as cash flow hedge as of December 31, 2018 (Notes 16, 30 and 31).

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if the host contract is not a financial asset and all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has no embedded derivatives as of December 31, 2018 and 2017.

Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification method and weighted average method for coal inventories and weighted average method for fuel oil and other consumables, and spare parts. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets represents expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Business Combination
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

- *Goodwill in a Business Combination*

  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units.

  Each unit or group of units to which the goodwill is allocated:
  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

  Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group’s investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net losses of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income of an associate" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less impairment in value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease, whichever is shorter
Other equipment	2 - 20
Building	10 - 25

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of intangible assets with finite lives:

	Number of Years
Power concession right	25
Computer software and licenses	3

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Agreements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entity in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements.* Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entity in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group's power concession right pertains to the right granted by the Government to the Parent Company, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). The Group's power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The useful life of power concession right is assessed to be either finite or indefinite. Power concession right arising from a service concession arrangement is amortized using straight-line method over the concession period, which is 25 years from the first day of the commencement of operations, or the estimated useful lives of the infrastructure, whichever is shorter, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the concession assets.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

An entity recognizes and measures revenue in accordance with PFRS 15 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative stand-alone selling prices of the services delivered.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Concession payable is recognized at the date of inception of the concession agreement. Fixed concession fees are recognized at present value using the discount rate at the inception date. This account is debited upon payment of fixed fees and such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession payable is presented under “Interest expense and other financing charges” account in the consolidated statements of income.

Concession payable that are expected to be settled within 12 months after the reporting date are classified as current liabilities. Otherwise, these are classified as noncurrent liabilities.

Mining Rights
The Group's mining rights have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mining rights is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mining rights is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mining rights, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Fair Value Measurements

The Group measures financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

ARO. The Group records a provision for asset retirement costs of its power plants. Asset retirement costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of property, plant and equipment. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the retirement liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income as "Interest expense and other financing charges". The estimated future costs of asset retirement are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the power plants. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income.

Capital Stock and Additional Paid-in Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Redeemable Perpetual Securities (RPS) and Undated Subordinated Capital Securities (USCS)

RPS and USCS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of RPS and USCS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to RPS and USCS.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend, distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Revenue Recognition

Policy from January 1, 2018

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenues are inclusive of pass-through charges, net of value-added tax (VAT) and other fees collected on behalf of other parties collected on behalf of other parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power
Revenue from power generation and trading is recognized over time when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services
Revenues from retail and other power-related services are recognized over time upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Others
Interest income is recognized using the effective interest rate method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Management income is recognized when earned in accordance with the terms of the agreement.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Construction revenue related to the Group's recognition of intangible asset on the right to operate and maintain the franchise of ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate and maintain the franchise of ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Policy before January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power. Revenue from power generation and trading is recognized in the period when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services. Revenues are recognized upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Others
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Management income is recognized when earned in accordance with the terms of the agreement.

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Construction revenue related to the Group's recognition of intangible asset on the right to operate and maintain the franchise of ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate and maintain the franchise of ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on finance lease liabilities, loans, concession payable, premium on option liabilities and other borrowings. Finance charges on finance lease liabilities, loans, concession payable and premium on option liabilities are recognized in the consolidated statements of income using the effective interest rate method.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement obligation is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- Remeasurements of defined benefit retirement liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the “Translation reserves” account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the “Translation reserves” account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" accounts in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or 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. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of RPS and USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

As of December 31, 2018, 2017 and 2016, the Group has no dilutive equity instruments as disclosed in Note 29 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. Financial Information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments
In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Determining Functional Currency. The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

Finance Lease - Group as Lessee. The Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM) provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements, the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MPPCL also entered into a lease agreement with PSALM for the lease of land where a portion of the Masinloc Power Plant is situated.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and land. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 13).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P142,007,061 and P154,793,690 as of December 31, 2018 and 2017, respectively (Notes 7, 30 and 31).

The combined carrying amounts of power plants and land under finance lease amounted to P168,266,667 and P172,573,492 as of December 31, 2018 and 2017, respectively (Note 13).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Note 7).

Rent income recognized in the consolidated statements of income amounted to P6,170, P10,686 and P21,147 in 2018, 2017 and 2016, respectively (Notes 7 and 26).

Rent expense recognized in the consolidated statements of income amounted to P356,606, P376,499 and P351,091 in 2018, 2017 and 2016, respectively (Notes 7 and 25).

Determining Whether the Group is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Group is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Group obtains control of the specified goods and services before it is transferred to the customer.

For the sale of power and retail and other power-related services, the Group has the obligation to provide a recurring service to the customer over the contract term and transfers control upon delivery, hence, the Group has determined that it is acting as principal in these revenue arrangements with customers.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with ALECO, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation. Management determined that the consideration receivable, in exchange for the fulfillment of the Group's obligation under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the costs components of acquiring the right (Notes 3, 7 and 15).

Power Concession Right. The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms, and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation (KWPP) as joint venture (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classification of Financial Instruments. The Group exercises judgments in classifying financial instrument or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 31.

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 33).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment for ECL on Trade and Other Receivables (Upon Adoption of PFRS 9). The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of trade and other receivables are normally collected within one year. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade and other receivables.

There were no trade and other receivables written-off in 2018. The allowance for impairment losses on trade and other receivables amounted to P2,574,423 as of December 31, 2018. The carrying amount of trade and other receivables amounted to P33,046,686 as of December 31, 2018 (Note 9).

Assessment for ECL on Other Financial Assets at Amortized Cost (Upon Adoption of PFRS 9). The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2018
Cash and cash equivalents	*8*	**P28,511,862**
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	*11*	**54,009**
Noncurrent receivables (included under "Other noncurrent assets" account)	*16*	**265,298**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	*11, 16*	**4,742,219**
		P33,573,388

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables (Prior to the Adoption of PFRS 9). Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded costs and expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables amounted to P2,451,818 as of December 31, 2017. There was no allowance for impairment losses recognized on noncurrent receivables as of December 31, 2017 (Notes 9 and 16).

The carrying amount of trade and other receivables, and noncurrent receivables amounted to P20,664,166 as of December 31, 2017 (Notes 9,16, 30 and 31).

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 11, 16, 18 and 31.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2018 and 2017.

The carrying amount of inventories amounted to P5,294,631 and P3,147,668 as of December 31, 2018 and 2017, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment. The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded cost of power sold and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P312,385,671 and P250,961,307 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P52,054,109 and P42,776,912 as of December 31, 2018 and 2017, respectively (Note 13).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drillholes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted.

The Philippine Department of Energy (DOE) is the government agency authorized to implement Coal Operating Contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the 5-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable, and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and 2/3 of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines (Note 14).

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities remain in the preparatory stages as of December 31, 2018. All related costs and expenses from the mining activities are currently deferred as exploration and development costs, which will be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2018 and 2017.

Deferred exploration and development costs amounted to P705,458 and P699,001 as of December 31, 2018 and 2017, respectively (Note 14).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or an indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives, such as mining rights and computer software and licenses, amounted to P1,778,858 and P1,803,386 as of December 31, 2018 and 2017, respectively. Accumulated amortization of computer software and licenses amounted to P259,588 and P154,849 as of December 31, 2018 and 2017, respectively (Note 15). The amortization of mining rights will commence upon commercial operations.

Intangible assets with indefinite useful life amounted to P69,953,222 and P8,866 as of December 31, 2018 and 2017, respectively (Notes 5 and 15).

Estimated Useful Lives of Intangible Assets - Power Concession Right. The Group estimates the useful life of power concession right based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The carrying amount of power concession right amounted to P881,283 and P781,884 as of December 31, 2018 and 2017, respectively (Note 15).

Impairment of Goodwil with Indefinite Useful Life. The Group determines whether the goodwill acquired in a business combination is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of SMCGP Masin, SMCGP Transpower and SPHI (collectively referred to as Masinloc Group) has been determined based on the value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate and discount rate of 3.0% and 9.0% in 2018, respectively (Notes 5 and 15).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

No impairment loss was recognized in 2018 in relation to the goodwill arising from the acquisition of the Masinloc Group, which accounts for almost 100% of the goodwill in the consolidated statements of financial position as of December 31, 2018.

The carrying amount of goodwill amounted to P69,953,222 and P8,866 as of December 31, 2018 and 2017, respectively (Notes 5 and 15).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has determined that the acquisition of the Masinloc Group represents a business due to the presence of the integrated set of activities acquired.

The carrying amount of goodwill arising from business combinations amounted to P69,953,222 and P8,866 as of December 31, 2018, and 2017, respectively (Note 15).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 27).

Deferred tax assets from temporary differences amounted to P1,137,565 and P1,316,926 as of December 31, 2018 and 2017, respectively (Note 27).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment amounted to P70,265 and nil as of December 31, 2018 and 2017, respectively (Note 13).

The combined carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and intangible assets with finite useful lives amounted to P327,829,991 and P270,866,709 as of December 31, 2018 and 2017, respectively (Notes 12, 13, 14 and 15).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 21 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P227,091 and P78,104 as of December 31, 2018 and 2017, respectively (Note 21).

ARO. The Group has ARO arising from power plants and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate of 8.371% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group's ARO presented under "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P287,075 and P157,632 as of December 31, 2018 and 2017, respectively.

5. Business Combination

On March 20, 2018, the Parent Company acquired 51% and 49% equity interests in SMCGP Masin from AES Phil Investment Pte. Ltd. ("AES Phil") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as "SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3; Units 1, 2 and 3 are collectively referred to as the "Masinloc Power Plant"), and the 10 MW battery energy storage project (the "Masinloc BESS"), all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of the Group.

As part of the acquisition, the Parent Company also acquired SMCGP Transpower and SPHI. SMCGP Transpower was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

With the acquisition by the Parent Company of the Masinloc Group (the "Transaction"), the Group aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for the Group to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction will result in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction in United States dollar (US$) is US$1,900,000 (equivalent to P98,990,000). The total consideration was paid in cash by the Parent Company using the proceeds of (a) US dollar-denominated long-term borrowings obtained from various financial institutions totaling to US$1,200,000 and (b) the issuance of RPS and obtaining advances from SMC amounting to US$650,000 and US$150,000, respectively (Notes 19, 20 and 22).

The Transaction gave the Parent Company 100% ownership and control based on PFRS 3, and was consolidated effective March 20, 2018.

From the date of acquisition, the Masinloc Group has contributed P19,459,316 and P2,781,309 of revenues and net income to the Group's results.

For the year ended December 31, 2018, the consolidated revenues and net income of the Group would have been P124,949,444 and P8,508,703 respectively, had the Transaction been completed at the beginning of the reporting period.

The Parent Company has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized provisionary amounts of assets acquired and liabilities assumed at the acquisition date:

	2018
Assets	
Cash and cash equivalents	**P1,656,243**
Trade and other receivables	**2,438,955**
Inventories	**2,378,065**
Prepaid expenses and other current assets	**1,691,735**
Property, plant and equipment	**62,274,180**
Intangible assets	**79,553**
Other noncurrent assets	**3,039,797**
Liabilities	
Loans payable	**(2,343,600)**
Accounts payable and accrued expenses	**(9,590,653)**
Finance lease liabilities (including current portion)	**(30,775)**
Income tax payable	**(139,445)**
Long-term debt - net (including current maturities)	**(31,951,895)**
Deferred tax liabilities	**(54,520)**
Other noncurrent liabilities	**(203,919)**
Total identifiable net assets	**P29,243,721**

Provisional goodwill recognized as a result of acquisition follows:

	Note	2018
Consideration transferred		**P98,990,000**
Non-controlling interest measured at proportionate interest in identifiable net assets		**198,077**
Total identifiable net assets		**(29,243,721)**
Provisional Goodwill	*15*	**P69,944,356**

Trade and Other Receivables. The fair value of trade and other receivables amounted to P2,438,955. The gross amount of trade and other receivables is P2,503,458, of which P64,503 is expected to be uncollectible as at the acquisition date (Note 9).

Acquisition-related Costs
The Parent Company incurred acquisition-related costs of P286,192 and P194,688 for the years ended December 31, 2018 and 2017, respectively, which have been included in the "Selling and administrative expenses" account in the consolidated statements of income.

Goodwill arising from the Transaction is attributable to the benefit of expected synergies, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The Group is currently completing the purchase price allocation exercise on the acquisition. The identifiable net assets at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the completion of the Transaction.

6. Segment Information

Operating Segments
The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and remain in the preparatory stages of mining activities (Note 14).

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment, deferred exploration and development costs, and other noncurrent assets. Segment liabilities include all operating liabilities and consist primarily of loans payable, accounts payable and accrued expenses, finance lease liabilities, and other noncurrent liabilities. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions
Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P54,474,012, P43,404,148 and P39,565,977 for the years ended December 31, 2018, 2017 and 2016, respectively, represents more than 10% of the Group's total revenues.

For management reporting purposes, the Group's operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

For the Years Ended December 31

	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Revenues																		
External	**P101,294,837**	P70,494,762	P72,250,309	**P18,808,010**	P12,295,813	P5,722,121	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P120,102,847**	P82,790,575	P77,972,430
Inter-segment	**19,056,846**	14,258,684	8,964,899	**197,729**	98,501	14,629	**-**	-	-	**656,388**	309,330	132,000	**(19,910,963)**	(14,666,515)	(9,111,528)	**-**	-	-
	120,351,683	84,753,446	81,215,208	**19,005,739**	12,394,314	5,736,750	**-**	-	-	**656,388**	309,330	132,000	**(19,910,963)**	(14,666,515)	(9,111,528)	**120,102,847**	82,790,575	77,972,430
Costs and Expenses																		
Cost of power sold	**83,744,243**	57,089,457	48,359,078	**17,285,808**	11,694,501	5,711,781	**-**	-	-	**69,647**	-	-	**(20,281,392)**	(14,958,644)	(8,907,750)	**80,818,306**	53,825,314	45,163,109
Selling and administrative expenses	**5,859,988**	4,616,845	5,950,986	**329,612**	218,091	849,499	**14,952**	22,663	28,495	**2,334,476**	2,177,596	1,599,204	**(2,428,818)**	(2,346,214)	(2,349,203)	**6,110,210**	4,688,981	6,078,981
	89,604,231	61,706,302	54,310,064	**17,615,420**	11,912,592	6,561,280	**14,952**	22,663	28,495	**2,404,123**	2,177,596	1,599,204	**(22,710,210)**	(17,304,858)	(11,256,953)	**86,928,516**	58,514,295	51,242,090
Segment Result	**30,747,452**	23,047,144	26,905,144	**1,390,319**	481,722	(824,530)	**(14,952)**	(22,663)	(28,495)	**(1,747,735)**	(1,868,266)	(1,467,204)	**2,799,247**	2,638,343	2,145,425	**33,174,331**	24,276,280	26,730,340
Interest income																**661,212**	460,958	200,502
Gain on sale of power plant and other equipment																**-**	-	116,357
Equity in net losses of associates and joint ventures																**(471,236)**	(40,396)	(294,795)
Interest expense and other financing charges																**(17,616,056)**	(13,244,581)	(12,354,229)
Other income (charges) - net																**(3,546,602)**	2,944,165	(6,881,754)
Income tax expense - net																**(3,901,532)**	(6,179,510)	(3,365,759)
Consolidated Net Income																**P8,300,117**	P8,216,916	P4,150,662

As of and For the Years Ended December 31

	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Other Information												
Segment assets	**P374,899,016**	P317,738,519	**P10,042,738**	P4,791,648	**P723,161**	P723,848	**P40,068,111**	P36,352,591	**(P17,782,705)**	(P29,965,804)	**P407,950,321**	P329,640,802
Investments and advances - net	**10,056,639**	9,836,060	**187,823**	177,219	**-**	-	**199,115,545**	53,297,475	**(197,211,021)**	(46,689,623)	**12,148,986**	16,621,131
Goodwill and other intangible assets - net											**72,613,363**	2,594,136
Deferred tax assets											**1,137,565**	1,316,926
Consolidated Total Assets											**P493,850,235**	P350,172,995
Segment liabilities	**P190,704,624**	P219,179,600	**P6,526,781**	P5,262,850	**P802,952**	P788,714	**P14,591,408**	P1,460,026	**(P29,989,516)**	(P34,488,425)	**P182,636,249**	P192,202,765
Long-term debt - net											**206,965,260**	90,728,701
Income tax payable											**310,882**	151,906
Deferred tax liabilities											**8,180,119**	7,324,111
Consolidated Total Liabilities											**P398,092,510**	P290,407,483
Capital expenditures	**P5,989,791**	P8,870,396	**P -**	P -	**P -**	P -	**P59,962**	P41,135	**P -**	P -	**P6,049,753**	P8,911,531
Depreciation and amortization of property, plant and equipment and intangible assets	**9,211,114**	5,911,084	**57,095**	31,005	**3,164**	10,760	**75,749**	112,082	**(6,887)**	-	**9,340,235**	6,064,931
Noncash items other than depreciation and amortization	**4,226,984**	(693,014)	**19,917**	19,846	**(7)**	(1)	**529,511**	(60,703)	**-**	-	**4,776,405**	(733,872)

**Noncash items other than depreciation and amortization include retirement benefit expense, unrealized foreign exchange losses/(gains), impairment losses on trade and other receivables, property, plant and equipment, and others and equity in net losses of an associate and joint ventures - net.*

7. Significant Agreements and Lease Commitments

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of the National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P25,423,530, P23,726,459 and P20,477,903 in 2018, 2017 and 2016, respectively (Note 24). SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305 which will expire on November 3, 2019 and January 25, 2019, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2020.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 33).

The finance lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P8,320,739, P9,074,226 and P9,667,662 in 2018, 2017 and 2016, respectively.

The future minimum lease payments for each of the following periods are as follows:

2018	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$268,064**	**P14,094,815**	**P12,835,994**	**P26,930,809**
More than 1 year and not later than 5 years	**1,053,631**	**55,399,904**	**50,478,061**	**105,877,965**
Later than 5 years	**360,158**	**18,937,118**	**17,275,304**	**36,212,422**
	1,681,853	**88,431,837**	**80,589,359**	**169,021,196**
Less: Future finance charges on finance lease liabilities	**184,939**	**9,724,085**	**17,381,029**	**27,105,114**
Present values of finance lease liabilities	**US$1,496,914**	**P78,707,752**	**P63,208,330**	**P141,916,082**

2017	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$255,784	P12,771,279	P12,249,270	P25,020,549
More than 1 year and not later than 5 years	1,114,370	55,640,495	53,374,792	109,015,287
Later than 5 years	567,483	28,334,431	27,214,567	55,548,998
	1,937,637	96,746,205	92,838,629	189,584,834
Less: Future finance charges on finance lease liabilities	244,014	12,183,624	22,607,520	34,791,144
Present values of finance lease liabilities	US$1,693,623	P84,562,581	P70,231,109	P154,793,690

The present values of minimum lease payments for each of the following periods are as follows:

2018	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$216,662**	**P11,392,106**	**P8,198,471**	**P19,590,577**
More than 1 year and not later than 5 years	**938,838**	**49,364,101**	**39,688,606**	**89,052,707**
Later than 5 years	**341,414**	**17,951,545**	**15,321,253**	**33,272,798**
	US$1,496,914	**P78,707,752**	**P63,208,330**	**P141,916,082**

2017	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$196,709	P9,821,652	P7,022,779	P16,844,431
More than 1 year and not later than 5 years	963,978	48,131,431	39,493,581	87,625,012
Later than 5 years	532,936	26,609,498	23,714,749	50,324,247
	US$1,693,623	P84,562,581	P70,231,109	P154,793,690

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of the 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

The finance lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P66,511 in 2018.

MPPCL's land under finance lease is presented under "Property, plant and equipment" account in the consolidated statements of financial position amounted to P879,578 as at December 31, 2018 (Note 13).

Future minimum lease payments under finance lease with the present value of future minimum lease payments follow:

2018	**Minimum Lease Payments**	**Present Value of Minimum Lease Payments**
Not later than 1 year	**P69,145**	**P69,068**
More than 1 year and not later than 5 years	**15,282**	**12,077**
Later than 5 years	**16,385**	**9,834**
	100,812	**90,979**
Less: Future finance charges on finance lease liabilities	**9,833**	**-**
Present values of finance lease liabilities	**P90,979**	**P90,979**

c. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC, SCPC, SMELC and MPPCL each entered into separate MPAs with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL, recognized under "Plant operations and maintenance, and other fees" account in the consolidated statements of income, amounted to P325,188, P146,550 and P160,669 in 2018, 2017 and 2016, respectively (Note 24).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2019 and 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

d. Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party RES and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P11,181,239, P10,725,490 and P7,836,564 in 2018, 2017 and 2016, respectively (Note 24).

The PSA of SPI with Petron Corporation (Petron), an entity under common control, was terminated effective December 23, 2016 pursuant to the sale of SPI's power plant to Petron (Note 13).

Revenues from retail sales to contestable customers amounted to P18,808,010 P12,295,813 and P5,722,121 in 2018, 2017 and 2016, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 23).

e. Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)

On December 6, 2012, SPDC entered into a 5-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA, i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. On March 23, 2018, SPDC and SRPC finalized the extension of the MOA until March 25, 2020.

Revenue from sale of capacity of the San Roque Power Plant amounted to P412,595, P944,139 and P758,134 in 2018, 2017 and 2016, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 23).

f. Ancillary Service Procurement Agreement (ASPA)

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of 5 years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

Revenue from ancillary services of MPPCL amounted to P191,176 in 2018 and was recognized as part of "Revenues" account in the consolidated statements of income (Note 23).

g. Coal Supply Agreements

SMEC, SMCPC, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

h. Operations and Maintenance (O&M) Services Agreement

In exchange for the O&M services rendered by Petron, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of its 4 x 35 MW Limay Co-generation Solid Fuel-fired Power Plant (Limay Co-gen Power Plant). The agreement is effective for 25 years from September 2013 until 2038 and was terminated upon sale of SPI's power plant to Petron on December 23, 2016 (Note 13).

i. Distribution Wheeling Service (DWS) Agreements

As Retail Electricity Supplier (RES), SMELC, SCPC and MPPCL each entered into DWS Agreements with certain Distribution Utilities (DUs) for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to its customers as mandated by the ERC thru the "Single-Billing Policy".

j. Lease Agreements

Group as Lessee

i. The Parent Company has operating lease agreements for the use of office spaces with San Miguel Properties, Inc., an entity under common control, and an external party for a period of 1 to 5 years which is renewable upon agreement between the parties.

ii. SMEC has a lease agreement with Challenger Aero Air Corporation, an entity under common control, for the lease of aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016. The lease agreement was renewed up to December 31, 2019.

iii. In November 2015, SCPC leased parcels of land from New Ventures Realty Corporation (NVRC), an entity under common control, for its Phase I Limay Greenfield Power Plant and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing annual escalation adjustments of rental rates starting on certain anniversary dates.

iv. On December 7, 2015, LPPC leased a parcel of land from NVRC for its Phase II Limay Greenfield Power Plant for a period of 25 years from the effective date with an option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution. The lease agreement was assigned to SCPC pursuant to the sale of the Phase II Limay Greenfield Power Plant on June 22, 2017.

v. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P517 and P490 as of December 31, 2018 and 2017, respectively (Note 14).

vi. In 2016, the SMCPC entered into an agreement with Kyron Landholdings Inc., an entity under common control, for the sub-lease of a parcel of land for its Davao Greenfield Power Plant. The initial term of the lease is for a period of 25 years with the option to renew further for 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.

vii. On December 13, 2017, SCPC leased a foreshore area aggregating to 465,967 square meters from the Department of Environment and Natural Resources (DENR) for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.

viii. On March 7, 2017, SCPC leased a parcel of land with approximate area of 50,000 square meters from PNOC Alternative Fuels Corporation for the construction of auxiliary facilities of the Limay Greenfield Power Plant. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase the annual rental by 3% and every 5 years, the amount equivalent to 5% of the re-appraised value shall be the new rental rate.

ix. On October 3, 2018, SMCPC leased a foreshore area aggregating to 68,779 square meters from the DENR for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under “Trade and other receivables - net” or “Prepaid expenses and other current assets” accounts in the consolidated statements of financial position (Notes 9 and 11).

Future minimum lease payments under the non-cancellable operating lease agreements are as follows:

	2018	2017
Not later than 1 year	**P122,709**	P92,253
More than 1 year and not later than 5 years	**418,987**	373,416
Later than 5 years	**2,457,247**	2,435,954
	P2,998,943	P2,901,623

Rent expense recognized in the consolidated statements of income amounted to P356,606, P376,499 and P351,091 in 2018, 2017 and 2016, respectively (Notes 4 and 25).

Group as Lessor

i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties. The agreement expired on December 31, 2016.

ii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. This agreement was subsequently amended, reducing the leased area to 340,646 square meters effective October 1, 2013. This was further amended reducing the leased area to 130,980 square meters and with a corresponding reduction in the monthly rental effective on December 1, 2016. On June 20, 2017, NVRC assigned its leasehold rights to Petron.

    There are no restrictions imposed on these lease agreements such as those concerning dividends, additional debt and further leasing.

Future minimum lease receivables under the non-cancellable operating lease agreements are as follows:

	2018	2017
Not later than 1 year	**P6,373**	P6,187
After 1 year but not more than 5 years	**9,332**	15,705
	P15,705	P21,892

Rent income recognized under "Other income (charges)" account in the consolidated statements of income amounted to P6,170, P10,686 and P21,147 in 2018, 2017 and 2016, respectively (Notes 4 and 26).

k. Concession Agreement

The Parent Company entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

i. as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement and (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fee);

ii. if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529;

iii. on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and

iv. at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P649,631 and P509,419 as of December 31, 2018 and 2017, respectively. Interest expense on concession payable, included as part of "Interest expense and other financing charges" account in the consolidated statements of income, amounted to P5,851, P5,993 and P6,127 in 2018, 2017 and 2016, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P40,813, P30,426 and P25,060 in 2018, 2017 and 2016, respectively (Note 25).

Maturities of the carrying amount of concession payable are as follows:

	2018	2017
Not later than 1 year	**P2,700**	P2,549
More than 1 year and not later than 5 years	**12,490**	11,794
Later than 5 years	**84,480**	87,876
	P99,670	P102,219

Power concession assets consist of:

	Concession Rights	Completed Projects/Others	Asset Under Construction (Contract Asset)	Total
Cost				
January 1, 2017	P384,317	P231,910	P154,173	P770,400
Additions	-	115,055	8,281	123,336
December 31, 2017	384,317	346,965	162,454	893,736
Additions	-	105,067	35,145	140,212
Reclassification	-	144,481	(144,481)	-
December 31, 2018	**384,317**	**596,513**	**53,118**	**1,033,948**
Accumulated Amortization				
January 1, 2017	43,557	37,869	-	81,426
Amortization	15,373	15,053	-	30,426
December 31, 2017	58,930	52,922	-	111,852
Amortization	15,372	25,441	-	40,813
December 31, 2018	**74,302**	**78,363**	**-**	**152,665**
Carrying Amount				
December 31, 2017	P325,387	P294,043	P162,454	P781,884
December 31, 2018	**P310,015**	**P518,150**	**P53,118**	**P881,283**

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PFRS 15 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P140,212, P123,336 and P226,997 in 2018, 2017 and 2016, respectively (Note 26).

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2018**	2017
Cash in banks and on hand		**P8,733,340**	P3,557,558
Short-term investments		**19,778,522**	25,097,801
	30, 31	**P28,511,862**	P28,655,359

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P626,195, P374,509 and P176,681 in 2018, 2017 and 2016, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2018**	2017
Trade		**P21,402,654**	P14,332,102
Non-trade		**8,055,865**	6,674,594
Amounts owed by related parties	*7, 12, 20*	**6,162,590**	1,880,190
		35,621,109	22,886,886
Less allowance for impairment losses	*4*	**2,574,423**	2,451,818
	30, 31	**P33,046,686**	P20,435,068

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day term or an agreed collection period. The balance of trade receivables is inclusive of VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses are as follows:

	2018	2017
Balance at beginning of year	**P2,451,818**	P2,451,818
Acquisition of subsidiaries	**64,503**	-
Impairment losses during the year	**135,426**	-
Cumulative translation adjustment and others	**(77,324)**	-
Balance at end of year	**P2,574,423**	P2,451,818

Impairment losses are recognized in profit or loss as follows:

	Note	**2018**	2017	2016
Selling and administrative expenses	*25*	**P135,426**	P -	P958,784
Other income (charges) - net	*26*	**-**	-	251,667
		P135,426	P -	P1,210,451

Non-trade receivables include the following:

a. Due from PSALM amounting to US$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM on September 4, 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court ("RTC") of Mandaluyong City (Note 33).

b. As of December 31, 2018 and 2017, SMEC has receivables for the cost of fuel, market fees, and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P51,937 and P41,413, respectively. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P2,104,840 and P1,198,200 as of December 31, 2018 and 2017, respectively. The issue on excess capacity is subject of ongoing cases (Note 33).

c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

   On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2018 and 2017, HCML and Caason paid a total amount of nil and P18,925, respectively. As of December 31, 2018 and 2017, total outstanding receivable from HCML amounting to P421,784 has been fully provided with allowance.

d. Advances made by SCPC for the construction of transmission assets on behalf of NGCP. The reimbursement shall take place after full payment and proper turnover of the transmission assets to NGCP.

e. The remaining balance mainly pertains to receivables from customers which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	**2018**	2017
Coal	*7*	**P4,436,348**	P2,910,853
Materials and supplies		**687,336**	96,793
Fuel oil	*20*	**118,308**	110,858
Other consumables		**52,639**	29,164
	4	**P5,294,631**	P3,147,668

There were no inventory write-downs to net realizable value for the years ended December 31, 2018, 2017 and 2016. Inventories charged to cost of power sold amounted to P32,563,689, P13,039,144 and P10,046,687 in 2018, 2017 and 2016, respectively (Note 24).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2018**	2017
Input VAT		**P13,151,775**	P11,792,871
Prepaid tax		**5,767,602**	4,883,278
Restricted cash	*16*	**1,045,598**	-
Derivative asset not designated as cash flow hedge	*16, 30, 31*	**96,203**	-
Investment in debt instruments		**54,009**	-
Prepaid rent and others	*7, 20*	**1,646,529**	1,115,766
		P21,761,716	P17,791,915

Input VAT consists of VAT on purchases of goods and services which can be offset against the output VAT payable (Note 18).

Prepaid tax consists of creditable withholding taxes and excess tax credits which can be used as a deduction against future income tax payable.

Restricted cash pertains to the Cash Flow Waterfall accounts of SCPC and SMCPC, maintained with a local Trust Company as required in its respective Omnibus Loan and Security Agreements (OLSA), with balances amounting to P671,576 and P374,022, respectively (Note 19).

The methods and assumptions used to estimate the fair values of restricted cash and derivative asset not designated as cash flow hedge are discussed in Note 31.

Prepaid rent and others pertain to the following:

a. Prepaid rent of the Group from various operating lease agreements amounted to P33,165 and P15,347 as of December 31, 2018 and 2017, respectively (Note 7).

b. PSALM monthly fee outage credits of SMEC for the approved reduction in its future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2018 and 2017.

c. The Parent Company's prepaid legal and financial advisory fees relating to its financing activities.

12. Investments and Advances

Investments and advances consist of:

	2018	2017
Investments in Shares of Stock of Associates and Joint Ventures		
Cost	**P8,583,462**	P8,583,462
Accumulated Equity in Net Losses		
Balance at beginning of year	**(927,355)**	(886,959)
Equity in net losses during the year	**(442,262)**	(28,302)
Share in other comprehensive income during the year	**1,395**	-
Adjustment to equity in net losses in prior year	**(28,974)**	(12,094)
Adjustment to share in other comprehensive income in prior year	**(393)**	-
Balance at end of year	**(1,397,589)**	(927,355)
	7,185,873	7,656,107
Advances	**4,963,113**	8,965,024
	P12,148,986	P16,621,131

Advances pertain to deposits made to certain land holding companies which will be applied to future stock subscriptions. In 2018, SMC bought ownership interests in certain land holding companies. Consequently, the related deposits to the said land holding companies amounting to P4,472,785, were reclassified to "Amounts owed by related parties" account (Notes 9 and 20).

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

a. Investment in shares of stock of associates

    i. Olongapo Electricity Distribution Company, Inc. (OEDC)

    In April 2013, SPGC and San Miguel Equity Investments, Inc. (SMEII), an entity under common control, entered into a Deed of Assignment of Subscription Rights whereby SMEII agreed to assign 35% ownership interest in OEDC to SPGC for a consideration of P8,750.

    Subscriptions payable amounted to P28,101 as of December 31, 2018 and 2017 (Note 20).

ii. Mariveles Power Generation Corporation (MPGC)

On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco, and Zygnet Prime Holdings, Inc. (Zygnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, the Parent Company now holds 49% of the outstanding capital stock of MPGC while MGen and Zygnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of the Parent Company prior to the subscription of MGen and Zygnet. Following the change in interest of ownership from 100% to 49% in MPGC, the Parent Company now has significant influence to participate in the financial and operating policy decisions of MPGC and accounts for the investment using the equity method.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

On July 13, 2016, the Parent Company subscribed to 9,643,200 shares, representing 49% of the total shares subscribed by all shareholders out of the increase in the authorized capital stock of MPGC, at the subscription price of P100 per share.

On January 25, 2019, the Parent Company subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing the Parent Company's ownership interest in MPGC from 49% to 73.6%, and an additional 28,929,347 common shares out of the increase in the authorized capital stock of MPGC at the subscription price of P100 per share. On the same date, the Parent Company has partially paid P4,508,850 of the total subscriptions. The additional capital infusion is for the power plant project of MPGC.

As of March 11, 2019, MPGC's application for the increase in the authorized capital stock is still pending.

The acquisition of MPGC is accounted for as an asset acquisition since the acquired set of assets and activities does not constitute a business as defined in PFRS 3.

The table below summarizes the financial information of investment in shares of stock of associates which is accounted for using the equity method:

December 31, 2018 (Unaudited)

	OEDC	**MPGC**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P334,770**	**P17,646**
Noncurrent assets	**1,211,335**	**1,961,419**
Current liabilities	**(350,069)**	**(32,074)**
Noncurrent liabilities	**(694,833)**	**-**
Net assets	**P501,203**	**P1,946,991**
Revenue	**P1,399,872**	**P -**
Net income	**P23,265**	**P739**
Other comprehensive income	**3,985**	**-**
Total comprehensive income	**P27,250**	**P739**
Share in net income	**P8,143**	**P362**
Share in other comprehensive income	**P1,395**	**P -**
Carrying amount of investment	**P187,823**	**P954,079**

December 31, 2017 (Audited)

	OEDC	MPGC
Country of Incorporation	Philippines	Philippines
Current assets	P292,099	P16,907
Noncurrent assets	1,177,931	1,951,791
Current liabilities	(865,689)	(22,446)
Noncurrent liabilities	(130,389)	-
Net assets	P473,952	P1,946,252
Revenue	P1,296,385	P -
Net losses	P14,516	P10,208*
Other comprehensive loss	1,123	-
Total comprehensive loss	P15,639	P10,208
Share in net losses	P5,081	P5,002
Share in other comprehensive loss	P393	P -
Carrying amount of investment	P178,285	P953,717

**Inclusive of P9,840 stock issuance costs directly charged to equity in 2017.*

b. Investments in shares of stock of joint ventures

i. AHC and KWPP

The Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of AHC and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock.

Subsequently, AHC and KWPP each issued shares in favor of nominee directors of PVEI and K-Water to complete their respective shareholding interest.

In accordance with the entry of PVEI into AHC and KWPP, K-Water and PVEI are jointly in control of the management and operation of AHC and KWPP.

AHC

AHC was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the EPIRA.

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2018 (Unaudited)

	AHC	**KWPP**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P2,878,296**	**P7,655**
Noncurrent assets	**18,054,586**	**20,214**
Current liabilities	**(1,049,537)**	**(10,804)**
Noncurrent liabilities	**(11,980,222)**	**(15,906)**
Net assets	**P7,903,123**	**P1,159**
Revenue	**P1,575,268**	**P -**
Net income (losses)/total comprehensive income (losses)	**(P751,294)**	**P16**
Share in net income (losses)/total comprehensive income (losses)	**(P450,777)**	**P10**
Carrying amount of investment	**P6,043,051**	**P920**

December 31, 2017 (Audited)

	AHC	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P2,847,731	P5,878
Noncurrent assets	18,753,313	20,348
Current liabilities	(1,689,991)	(9,157)
Noncurrent liabilities	(11,256,635)	(15,926)
Net assets	P8,654,418	P1,143
Revenue	P2,185,181	P -
Net income (losses)/total comprehensive income (losses)	(P78,723)*	P70
Share in net income (losses)/total comprehensive income (losses)	(P47,234)	P42
Carrying amount of investment	P6,493,828	P910

**Inclusive of P46,207 stock issuance costs directly charged to equity in 2017.*

Investment in Shares of Stock of Subsidiaries
The following are the developments relating to the subsidiaries:

i. SCPC

In 2013, SCPC started the construction of its Phase I Limay Greenfield Power Plant (comprising of Units 1 and 2).

On June 22, 2017, SCPC acquired the Phase II Limay Greenfield Power Plant (comprising of Units 3 and 4) from LPPC. The Units 1, 2 and 3 were successfully synchronized to the Luzon Grid in November 2016, May 2017 and November 2017, respectively.

Commercial operations of Units 1, 2 and 3 commenced on May 26, 2017, September 26, 2017 and March 26, 2018, respectively, following the completion of testing and commissioning phase and the ERC issuance of a Provisional Authority to Operate (PAO) in favor of SCPC for its 3 units. Unit 4 is still under construction as of December 31, 2018.

ii. SMCPC

In 2013, SMCPC started the construction of its Davao Greenfield Power Plant. Units 1 and 2 were successfully synchronized to the Mindanao Grid in May 2016 and February 2017, respectively.

Units 1 and 2 started commercial operations on July 26, 2017 and February 26, 2018, respectively, following the completion of its testing and commissioning phase and the ERC issuance of a PAO in favor of SMCPC for its 2 units.

iii. PVEI

In January 2017, PVEI granted shareholder advances amounting to US$31,800 (equivalent to P1,578,870) to its joint venture company, AHC. The advances bear an annual interest rate of 4.50% and are due on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, PVEI partially collected the foregoing advances amounting to US$19,703 (equivalent to P984,550).

On March 1 and October 16, 2018, PVEI collected an additional US$9,816 (equivalent to P518,366) from AHC as partial payment of the advances. Payment date of the remaining balance of the advances amounting to US$2,281 (equivalent to P119,946) was extended to March 31, 2019.

iv. PEGC

On July 13, 2018, PEGC, a wholly-owned subsidiary of the Parent Company, acquired the entire equity interest of ALCO Steam Energy Corporation (“ALCO”) in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total consideration of US$9,950 (equivalent to P532,425). MPPCL owns the 40% equity interests in Alpha Water.

Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant Complex in Zambales Province is located.

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2017	P224,974,260	P3,718,583	P1,068,112	P41,657	P53,507,853	P283,310,465
Additions	112,263	715	60,252	-	8,738,301	8,911,531
Reclassifications	25,458,414	234,580	(446,381)	-	(23,730,390)	1,516,223
December 31, 2017	250,544,937	3,953,878	681,983	41,657	38,515,764	293,738,219
Acquisition of subsidiaries	35,253,504	878,145	1,759,579	899,543	23,483,409	62,274,180
Additions	46,237	41,018	116,445	21,708	5,824,345	6,049,753
Reclassifications/Retirements	28,549,042	1,272,794	103,559	514,958	(28,694,240)	1,746,113
Currency translation adjustments	408,114	9,539	21,294	9,253	183,315	631,515
December 31, 2018	**314,801,834**	**6,155,374**	**2,682,860**	**1,487,119**	**39,312,593**	**364,439,780**
Accumulated Depreciation and Amortization						
January 1, 2017	36,566,871	42,462	206,885	6,220	-	36,822,438
Depreciation and amortization	5,811,940	43,863	95,238	3,433	-	5,954,474
December 31, 2017	42,378,811	86,325	302,123	9,653	-	42,776,912
Depreciation and amortization	8,769,755	98,339	288,548	37,761	-	9,194,403
Reclassifications/Retirements	(7,591)	(33,357)	(9,022)	6	-	(49,964)
Currency translation adjustments	125,967	1,031	5,440	320	-	132,758
December 31, 2018	**51,266,942**	**152,338**	**587,089**	**47,740**	**-**	**52,054,109**
Accumulated Impairment Losses						
December 31, 2017	-	-	-	-	-	-
Impairment	-	-	70,265	-	-	70,265
December 31, 2018	**-**	**-**	**70,265**	**-**	**-**	**70,265**
Carrying Amount						
December 31, 2017	P208,166,126	P3,867,553	P379,860	P32,004	P38,515,764	P250,961,307
December 31, 2018	**P263,534,892**	**P6,003,036**	**P2,025,506**	**P1,439,379**	**P39,312,593**	**P312,315,406**

a. The combined carrying amounts of power plants under finance lease amounted to P167,387,089 and P172,573,492 as of December 31, 2018 and 2017, respectively (Note 7).

b. The carrying amount of land under finance lease amounted to P879,578 as of December 31, 2018 (Note 7).

c. On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant located in Petron Bataan Refinery in favor of Petron. Accordingly, the carrying amount of certain property, plant and equipment, amounting to P18,093,254 as of September 30, 2016 were reclassified to “Assets held for sale” account. SPI recognized impairment loss of P323,788 at initial classification to measure its assets held for sale at lower of their carrying amount and fair value less costs to sell (Note 26).

   On October 28, 2016, SPI signed an agreement with Petron for the sale of the power plant and all pertinent assets, assignment of contracts to Petron, and the transfer of all remaining inventories, tools, supplies and other working capital necessary for the operation and maintenance of the power plant, among others.

   Effective December 23, 2016, SPI closed the sale of the power plant to Petron for a total consideration of P20,029,983 (inclusive of tax), which was collected in tranches up to June 2017 based on the terms of the agreement. Consequently, a gain of P114,447 was recognized on the sale and presented as part of “Gain on sale of property, plant and equipment” account in the consolidated statements of income.

   Pursuant to the sale of the power plant, all SPI agreements mentioned in Note 7 were terminated effective December 23, 2016.

d. The capitalized asset retirement costs, net of accumulated depreciation, amounted to P201,830 and P151,306 as of December 31, 2018 and 2017, respectively.

e. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.

f. Capital projects in progress pertains to the following:

   i. Project of SMCPC for the construction of the Davao Greenfield Power Plant.

      Following the completion of Units 1 and 2, and the ERC grant of a Provisional Authority to Operate (PAO) in favor of SMCPC for the 2 units, all CPIP costs were reclassified to the appropriate property, plant and equipment account.

   ii. Projects of SCPC for the construction of Phases I and II Limay Greenfield Power Plant.

      Following the completion of Units 1, 2 and 3 and the ERC grant of a PAO in favor of SCPC for the 3 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

      As of December 31, 2018, CPIP costs pertain to Unit 4 which is still in testing and commissioning phase.

iii. Plant optimization and pumped-storage hydropower projects of SPDC.

iv. Expenditures for the 500 kilovolts connection facilities in relation to the 600 MW Pagbilao power plant project of CLPPC.

v. Ongoing construction of the Unit 3, Masinloc Power Plant of MPPCL and the 2 x 20 MW battery energy storage facility of SMCGP Philippines Energy, which is still at the pre-development stage.

g. Depreciation and amortization related to property, plant and equipment are recognized in the consolidated statements of income as follows:

	Note	**2018**	2017	2016
Cost of power sold	*24*	**P9,068,086**	P5,811,941	P6,139,882
Selling and administrative expenses	*25*	**126,317**	142,533	109,388
		P9,194,403	P5,954,474	P6,249,270

Total depreciation and amortization recognized in the consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P93,670, P22,451 and P10,020 in 2018, 2017 and 2016, respectively. In 2018, the Group recognized impairment loss amounting to P70,265 and presented as part of “Other income (charges) - net” account in the consolidated statement of comprehensive income.

The Group has borrowing costs amounting to P1,830,949, P1,362,871 and P610,707 which were capitalized in 2018, 2017 and 2016, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 3.50% to 7.39% and from 2.75% to 6.54% in 2018 and 2017, respectively. The unamortized capitalized borrowing costs amounted to P2,906,057 and P1,968,151 as of December 31, 2018 and 2017, respectively (Notes 17 and 19).

14. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	Note	**2018**	2017
Balance at beginning of year		**P699,001**	P693,379
Additions		**6,457**	5,622
Balance at end of year	*4*	**P705,458**	P699,001

Deferred exploration and development costs comprise of expenditures which are directly attributable to the mining activities of DAMI, BERI and SEPC in relation to their respective COC.

In 2010, SMEC acquired DAMI, SEPC and BERI resulting in the recognition of mining rights of P1,719,726 (Notes 4 and 15).

DAMI’s coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2018 and 2017.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2018 and 2017, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2018 and 2017.

<u>Status of Operations</u>
In 2006 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2006	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new 5-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new 5-year WPB, initially with a deadline on January 25, 2019 but was extended until February 20, 2019 which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring instead of considering another moratorium extension, the submission of a 5-Year WPB initially with a deadline of January 25, 2019 but extended into February 20, 2019 which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a 10-year extension of its COC No. 138 which would be due to expire on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a 5-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new 5-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first two years of the 5-year WPB submitted by DAMI, SEPC and BERI, focuses on the "removal of tension cracked materials to prevent landslide" within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;

b. The mining method is "contour stripping and progressive rehabilitation" and not the banned "open-pit mining";

c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and

d. The ban could be lifted as a result of court cases filed against it.

As of December 31, 2018, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as of December 31, 2018 and 2017.

15. Goodwill and Intangible Assets

Intangible assets and goodwill consist of:

	Note	**2018**	2017
Goodwill	*4, 5*	**P69,953,222**	P8,866
Mining rights	*14*	**1,719,726**	1,719,726
Power concession assets - net	*4, 7*	**881,283**	781,884
Computer software and licenses - net		**59,132**	83,660
		P72,613,363	P2,594,136

Goodwill
In November 2009 and March 2010, the Parent Company acquired 60% ownership interest in SMEC and SPDC, respectively. As a result of these transactions, the Parent Company recognized goodwill amounting to P8,349 and P517, respectively.

In March 2018, the Parent Company acquired ownership interest in the Masinloc Group. As a result of this transaction, the Parent Company recognized goodwill amounting to P69,944,356 (Note 5).

Impairment of Goodwill from Masinloc Group
Goodwill arising from the acquisition of Masinloc Group, which accounts for almost 100% of the total goodwill in the consolidated statements of financial position as of December 31, 2018, is allocated to the cash generating unit of the Masinloc Group.

The recoverable amount of goodwill has been determined based on the value in use using DCF and was based on the following key assumptions:

- Cash flows were projected based on past experience and actual operating results and covers forecast until 2045 based on long range plans approved by Management. Management believes that forecast until 2045 was justifiable due to long-term contract with major customers. Cash flows beyond 2045 are extrapolated using a constant growth rate determined per cash-generating unit.

- A discount rate of 9.0% in 2018 was applied based on the weighted-average cost of capital, which reflects management's estimate of the risk specific to the cash-generating unit.

- Terminal growth rate of 3.0% in 2018 was applied as the Group is in the process of increasing its capacity and upgrading its facilities and hence foresees growth in cash flows generated perpetually. This growth rate is consistent with the long-term average growth rate for the industry.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of discount rate sensitivity, discount rate scenarios of 8% and 10% in 2018 are applied on the discounted cash flows analysis. Management believes that any reasonably possible change in the discount rate on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC, SPDC, and the Masinloc Group for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2018 and 2017.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

	Note	2018	2017
Cost			
Balance at beginning of year		**P238,509**	P229,371
Acquisition of subsidiaries	5	**79,553**	-
Additions		**-**	9,138
Cumulative translation adjustments		**658**	-
Balance at end of year		**318,720**	238,509
Accumulated Amortization			
Balance at beginning of year		**154,849**	74,818
Amortization	25	**105,019**	80,031
Cumulative translation adjustments		**(280)**	-
Balance at end of year		**259,588**	154,849
		P59,132	P83,660

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2018	2017
Restricted cash - net of current portion		**P4,442,553**	P5,578,357
Deferred input VAT - net of current portion		**1,251,619**	2,081,126
Advances to suppliers and contractors		**188,246**	-
Amount owed by a related party	20	**170,390**	199,610
Derivative assets designated as cash flow hedge	30, 31	**163,630**	-
Noncurrent receivables		**94,908**	29,488
Derivative asset not designated as cash flow hedge	11, 20, 31	**-**	61,903
Other assets		**3,216**	-
	30, 31	**P6,314,562**	P7,950,484

Restricted cash comprises of: (a) SCPC's Cash Flow Waterfall accounts, amounting to P1,448,074 and P4,805,175 as of December 31, 2018 and 2017, respectively (Notes 11 and 19); (b) MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its credit facilities, totaling to P2,248,527 as at December 31, 2018; (c) the amount received from PEMC amounting to P491,242 as of December 31, 2018 and 2017, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 33); and (d) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P254,690 and P281,940 as of December 31, 2018 and 2017, respectively.

Amount owed by a related party pertains to the loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 20).

As of December 31, 2018 and 2017, the deferred input VAT mainly pertains to the input VAT on the purchase of power plant from LPPC in June 2017 (Note 13).

The methods and assumptions used to estimate the fair values of restricted cash, noncurrent receivables and derivative assets are discussed in Note 31.

17. Loans Payable

	Note	**2018**	2017
Foreign currency-denominated			
Parent Company		**P6,309,600**	P -
MPPCL		**2,366,100**	-
Philippine peso-denominated			
SMCPC		**-**	5,930,000
	30, 31	**P8,675,700**	P5,930,000

Loans payable mainly represent unsecured short-term Philippine peso and US dollar-denominated amounts obtained from various local banks. Interest rates for dollar-denominated loans ranged from 3.61% to 4.10% in 2018. Interest rates for peso-denominated loan ranged from 2.75% to 3.25% in 2017.

Interest expense on loans payable amounted to P216,394 and P93,051, inclusive of P15,957 and P55,371 capitalized in CPIP, in 2018 and 2017, respectively (Note 13).

On August 17, 2018, SMCPC fully paid its P5,930,000 loans payable using the proceeds of its P20,322,000 term loan (Note 19).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2018**	2017
Trade	*7*	**P14,967,636**	P14,994,454
Non-trade	*7*	**7,248,252**	9,693,202
Output VAT		**6,855,666**	5,140,417
Accrued interest	*7, 17, 19*	**1,031,474**	427,469
Amounts owed to related parties	*20*	**586,606**	541,428
Withholding and other accrued taxes		**366,172**	277,744
Premium on option liabilities		**50,349**	-
Retirement benefit liability	*21*	**2,779**	-
Derivative liability not designated as cash flow hedge	*31*	**983**	-
	30, 31	**P31,109,917**	P31,074,714

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Non-trade payables include liability relating to power rate adjustments, payables to contractors, concession payables and other payables to the Government excluding output VAT and withholding taxes.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

The methods and assumptions used to estimate the fair values of financial liabilities not designated as cash flow hedge are discussed in Note 31.

19. Long-term Debt

Long-term debt consists of:

	Note	2018	2017
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.7500% maturing in 2023 (a)		**P14,823,529**	P -
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (b)		**19,812,609**	19,784,249
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (c)		**14,889,229**	14,865,330
		49,525,367	34,649,579
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (d)		**14,726,126**	14,856,835
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (e) (f)		**43,799,781**	-
Subsidiaries			
Peso-denominated			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (g)		**42,247,279**	41,222,287
Fixed interest rate of 7.7521% with maturities up to 2030 (h)		**20,060,138**	-
Foreign currency-denominated			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (i) (j)		**27,504,342**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (i) (j)		**9,102,227**	-
		157,439,893	56,079,122
	30, 31	**206,965,260**	90,728,701
Less current maturities		**4,939,454**	1,139,631
		P202,025,806	P89,589,070

a. The amount represents the second tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration (the "Series G" Bonds). The Series G Bonds, with an aggregate principal amount of P15,000,000, were issued and listed in the Philippine Dealing and Exchange Corp. (PDEx) for trading on August 17, 2018 at the issue price of 100% of face value with a 5-year term, due 2023, and interest rate of 6.7500%.

   Interest on the Series G Bonds shall be payable quarterly in arrears every February 17, May 17, August 17 and November 17 of each year starting November 17, 2018, as the first interest payment date.

   The proceeds were used by the Parent Company to refinance its outstanding shareholder advances, to partially refinance the US$500,000, 5-year term loan obtained in March 2018 and for payment of transaction-related expenses (Note 5).

   Unamortized debt issue costs amounted to P176,471 as of December 31, 2018. Accrued interest amounted to P99,000 as of December 31, 2018 and interest expense amounted to P376,875 in 2018.

b. The amount represents the first tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P20,000,000, was issued and listed in the PDEx for trading on December 22, 2017 at the issue price of 100% of face value. It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series D Bonds	5 years, due 2022	5.3750%
Series E Bonds	7 years, due 2024	6.2500%
Series F Bonds	10 years, due 2027	6.6250%

   Interest on the Bonds shall be payable quarterly in arrears every March 22, June 22, September 22 and December 22 of each year starting March 22, 2018 as the first interest payment date.

   Proceeds from the issuance were used by the Parent Company to refinance its P20,000,000 short-term loans obtained from local banks.

   Unamortized debt issue costs amounted to P187,391 and P215,751 as of December 31, 2018 and 2017, respectively. Accrued interest amounted to P23,536 as of December 31, 2018 and 2017. Interest expense amounted to P1,170,258 and P29,420 in 2018 and 2017, respectively.

c. The amount represents the Parent Company's fixed rate bonds issued with an aggregate amount of P15,000,000. The Bonds were issued and listed in the PDEx on July 11, 2016 at the issue price of 100% of face value in three series with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series A Bonds	5 years, due 2021	4.3458%
Series B Bonds	7 years, due 2023	4.7575%
Series C Bonds	10 years, due 2026	5.1792%

Interest is payable quarterly in arrears every January 11, April 11, July 11 and October 11 of each year starting October 11, 2016, as the first interest payment date.

The net proceeds were used on July 25, 2016 to refinance the US$300,000 short-term loan provided by a local bank of which the proceeds were used for the redemption of the US$300,000 bond in January 2016.

Unamortized debt issue costs amounted to P110,771 and P134,670 as of December 31, 2018 and 2017, respectively. Accrued interest amounted to P127,503 as of December 31, 2018 and 2017. Interest expense amounted to P708,349 in 2018 and 2017.

d. The amount represents the availment by the Parent Company of P15,000,000 fixed rate 7-year Term Loan Facility on April 26, 2017 from a local bank. Interest is payable quarterly in arrears on the last day of the agreed interest period. Principal repayment shall be in 14 semi-annual installments starting at the end of the first year from drawdown date. The proceeds were used to fund the payment of the remaining US$300,000 out of the US$700,000 term loan.

   On April 26 and October 26, 2018, the Parent Company made principal repayments totaling to P150,000, pursuant to the loan agreement.

   Unamortized debt issue costs amounted to P123,874 and P143,165 as of December 31, 2018 and 2017, respectively. Accrued interest amounted to P184,802 and P186,669 as of December 31, 2018 and 2017, respectively. Interest expense amounted to P1,043,088 and P455,995 in 2018 and 2017, respectively.

e. The amount represents the availment by the Parent Company of a US$500,000, 5-year credit facility agreement with a foreign financial institution on March 15, 2018. The proceeds were used by the Parent Company to partially finance the acquisition of the Masinloc Group (Note 5).

   On September 12, 21 and October 23, 2018, the Parent Company has partially paid a total of US$350,000 out of the US$500,000 term loan.

   Unamortized debt issue costs amounted to P176,169 as of December 31, 2018. Accrued interest amounted to P18,622 as of December 31, 2018 and interest expense amounted to P750,552 in 2018.

f. The amount represents the US$700,000 floating interest term loan availed by the Parent Company from a syndicate of foreign banks on March 16, 2018. The US$700,000 is divided into Facility A Loan amounting to US$200,000 maturing on March 12, 2021 and Facility B Loan amounting to US$500,000 maturing on March 13, 2023. The proceeds were used by the Parent Company to partially finance the acquisition of the Masinloc Group (Note 5).

   Unamortized debt issue costs amounted to P717,050 as of December 31, 2018. Accrued interest amounted to P19,092 as of December 31, 2018 and interest expense amounted to P1,117,855 in 2018.

g. The amount represents the P42,000,000 and P2,000,000 drawn by SCPC on June 28, 2017 and January 31, 2018, respectively, from a P44,000,000, 12-year Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks dated June 22, 2017. The proceeds were used mainly by SCPC for the following purposes:

   i. the settlement of the US$360,000 short-term loan availed on May 8, 2017 from a local bank;

   ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant, under construction, from LPPC; and

   iii. the repayment of advances from the Parent Company.

   On March 28, June 28, September 28 and December 28, 2018, SCPC has partially paid a total of P1,050,000 to the first tranche of the P44,000,000 loan, pursuant to the terms and conditions of the OLSA.

   Unamortized debt issue costs amounted to P702,720 and P777,713 as of December 31, 2018 and 2017, respectively. Accrued interest amounted to P18,493 and P17,948 as of December 31, 2018 and 2017, respectively. Interest expense amounted to P2,840,950 and P1,390,948 (inclusive of P948,070 and P872,289 capitalized in CPIP) in 2018 and 2017, respectively.

h. The amount represents the P20,322,000 drawn by SMCPC on August 17, 2018 from its P21,300,000, 12-year OLSA with a syndicate of local banks dated August 9, 2018. The proceeds were used mainly by SMCPC for the following purposes:

   i. the repayment in full of the P5,930,000 short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant (Note 13);

   ii. the partial financing of the remaining works for the project;

   iii. the repayment of advances from the Parent Company; and

   iv. the payment of transaction-related fees and expenses.

   Unamortized debt issue costs amounted to P261,862 as of December 31, 2018. Accrued interest amounted to P154,037 as of December 31, 2018 and interest expense amounted to P595,144 (inclusive of P7,029 capitalized in CPIP) in 2018.

i. The amount represents the US$299,400 total outstanding loan drawn in tranches by MPPCL from its Omnibus Refinancing Agreement (ORA), dated December 28, 2012, with local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL on April 16, 2008. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on January 2, 2023.

   On April 30 and October 31, 2018, MPPCL has partially paid a total of US$38,100 pursuant to the terms and conditions of the ORA.

Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P26,957 and P9,728, respectively, as of December 31, 2018. Accrued interest pertaining to fixed and floating interest tranche amounted to P94,777 and P31,592, respectively, as of December 31, 2018. Interest expense on fixed and floating interest tranche amounted to P498,955 and P166,318, respectively, for the period from March 20 up to December 31, 2018 (inclusive of P276,934 and P92,311 capitalized in CPIP, respectively).

j. The amount represents the US$407,000 total outstanding loan drawn in tranches by MPPCL from its Omnibus Expansion Financing Agreement (OEFA) dated December 1, 2015, with local banks, to finance the construction of the additional 335 MW coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on December 16, 2030.

   On July 6 and October 8, 2018, MPPCL has drawn US$120,000 in total from its OEFA.

   Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P375,611 and P123,648, respectively, as of December 31, 2018. Accrued interest pertaining to fixed and floating interest tranche amounted to P148,110 and P48,756, respectively, as of December 31, 2018. Interest expense on fixed and floating interest tranche amounted to P637,012 and P209,698, respectively, for the period from March 20 up to December 31, 2018 (inclusive of P353,560 and P116,389 capitalized in CPIP, respectively).

   On January 11, 2019, MPPCL has drawn US$ 35,000 from its OEFA.

Valuation Technique for Peso-denominated Bonds
The market value was determined using the market comparison technique. The fair values are based on PDEx. The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P47,499,734 and P35,651,237 as of December 31, 2018 and 2017, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

The debt agreements of the Parent Company, SCPC, SMCPC and MPPCL impose a number of covenants including, but not limited to, maintenance of certain financial ratios throughout the duration of the term of the debt agreements. The terms and conditions of the debt agreements also contain negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries, SCPC, SMCPC and MPPCL to create or have outstanding any security interest upon or with respect to any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries, SCPC, SMCPC and MPPCL to secure any indebtedness, subject to certain exceptions.

The loans of SCPC and SMCPC are secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC and SMCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCPC. The loans of MPPCL obtained from its ORA and OEFA are secured by real estate and chattel mortgages on all present assets (purchased under its asset purchase agreement, and all its rights in a land lease agreement, with PSALM) and all future assets as defined in its loan agreements.

As of December 31, 2018 and 2017, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	2018	2017
Balance at beginning of year	**P1,271,299**	P1,346,578
Additions	**1,560,440**	1,297,703
Acquisition of subsidiaries	**572,065**	-
Currency translation adjustments and others	**34,658**	-
Capitalized amount	**(21,037)**	(80,480)
Amortization	**(425,173)**	(1,292,502)
Balance at end of year	**P2,992,252**	P1,271,299

Repayment Schedule
The annual maturities of the long-term debt are as follows:

	Gross Amount				
Year	US Dollar	Peso Equivalent of US Dollar	Peso	Debt Issue Costs	Net
2019	US$49,398	P2,597,357	P2,436,391	P94,294	P4,939,454
2020	62,750	3,299,395	2,896,390	195,327	6,000,458
2021	266,027	13,987,689	9,834,640	359,153	23,463,176
2022	46,545	2,447,361	13,825,163	267,692	16,004,832
2023	822,726	43,258,924	23,232,643	1,093,739	65,397,828
2024 to thereafter	308,954	16,244,786	75,896,773	982,047	91,159,512
	US$1,556,400	P81,835,512	P128,122,000	P2,992,252	P206,965,260

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 30.

20. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of December 31:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*23, 25*	**2018**	**P483,003**	**P925,639**	**P87,768**	**P29,339**	On demand or 30 days;	Unsecured;
		2017	215,004	664,262	87,697	9,273	non-interest bearing	no impairment
	11, 16	**2018**	**-**	**-**	**96,203**	**-**	1 year; non-	Unsecured;
		2017	-	-	61,903	-	interest bearing	no impairment
Entities under Common Control	*7, 9, 10, 18, 23, 24, 25*	**2018**	**2,697,651**	**1,077,826**	**5,150,603**	**526,290**	On demand or 30 days;	Unsecured;
		2017	2,365,748	1,134,950	741,814	483,990	non-interest bearing	no impairment
	18	**2018**	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured;
		2017	-	-	-	492	non-interest bearing	
Associates	*9, 12, 18, 23*	**2018**	**996,108**	**16,647**	**117,229**	**29,936**	On demand or 30 days;	Unsecured;
		2017	902,864	-	98,556	29,643	non-interest bearing	no impairment
	9, 16	**2018**	**13,342**	**-**	**250,581**	**-**	9 years;	Unsecured;
		2017	13,458	-	250,603	-	interest bearing	no impairment
Joint Venture	*9, 26*	**2018**	**30,395**	**86,700**	**7,653**	**-**	30 days;	Unsecured;
		2017	24,183	416,058	1,937	18,522	non-interest bearing	no impairment
	9, 12	**2018**	**15,138**	**-**	**131,928**	**-**	92 days;	Unsecured;
		2017	64,797	-	635,163	-	interest bearing	no impairment
Associates of Entities under Common Control	*7, 9, 10, 23*	**2018**	**893,024**	**-**	**162,488**	**-**	30 days;	Unsecured;
		2017	850,515	23,880	133,236	-	non-interest bearing	no impairment
Others	*9, 18, 23*	**2018**	**1,832,837**	**-**	**424,730**	**1,041**	On demand or 30 days;	Unsecured;
		2017	45,161	-	130,794	-	non-interest bearing	no impairment
		2018	**P6,961,498**	**P2,106,812**	**P6,429,183**	**P587,098**		
		2017	P4,481,730	P2,239,150	P2,141,703	P541,920		

a. Amounts owed by related parties consist of trade and other receivables, derivative asset and security deposits (Notes 9, 11 and 16).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC (Notes 10, 12 and 18).

c. Amounts owed by associates mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 9 and 16).

d. Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" account in the consolidated statements of financial position (Notes 9, 12 and 26).

e. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2018**	2017	2016
Short-term employee benefits		**P103,911**	P81,537	P42,432
Retirement cost (benefit)	*21*	**(1,451)**	1,398	1,205
		P102,460	P82,935	P43,637

21. Retirement Plan

The Parent Company, SMEC, MPPCL, SMCGP Transpower and SPHI have unfunded, noncontributory, defined benefit retirement plans covering all of its permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability are determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2018. Valuations are obtained on a periodic basis.

The following table shows reconciliation of the net defined benefit retirement obligation and its component:

	2018	2017
Balance at beginning of year	**P78,104**	P69,364
Benefit obligation of newly-acquired subsidiaries	**165,455**	-
Recognized in Profit or Loss		
Current service cost	**31,740**	8,942
Interest expense	**14,070**	3,711
Settlement gain	**(13,285)**	-
	32,525	12,653
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	**1,779**	23,523
Changes in demographic assumptions	**-**	(24,922)
Changes in financial assumptions	**(33,342)**	(2,514)
	(31,563)	(3,913)
Others		
Transfer from other plans	**598**	-
Transfer to other plans	**(598)**	-
Benefits paid	**(17,430)**	-
	(17,430)	-
Balance at end of year	**P227,091**	P78,104

Defined benefit retirement obligation included as part of "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position, amounted to P227,091 and P78,104 as of December 31, 2018 and 2017, respectively.

The retirement costs are recognized in the consolidated statements of income as follows:

	Note	2018	2017	2016
Cost of power sold	*24*	**P27,388**	P -	P -
Selling and administrative expenses	*25*	**5,137**	12,653	8,388
		P32,525	P12,653	P8,388

The equity reserve for retirement plan as of December 31, 2018 and 2017, includes the Group's and an associate's accumulated net actuarial gains and losses recognized in other comprehensive income, net of tax, amounted to P8,052 and (P23,632), respectively.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2018	2017
Discount rate	**7.13% - 7.51%**	5.70%
Salary increase rate	**6.50% - 7.00%**	7.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the defined benefit retirement obligation ranges from 6.2 to 21 years and 7.0 to 9.5 years as of December 31, 2018 and 2017, respectively.

Sensitivity Analysis

As of December 31, 2018 and 2017, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2018		2017	
	1% Increase	**1% Decrease**	1% Increase	1% Decrease
Discount rate	**(P15,985)**	**P18,719**	(P6,791)	P7,935
Salary increase rate	**17,666**	**(15,384)**	7,131	(6,260)

Risks and Management of Risks

The defined benefit retirement obligation exposes the Group to actuarial risks, such as longevity risk and interest rate risk.

The defined benefit retirement obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit retirement obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit retirement obligation. Also, benefit claims under the defined benefit retirement obligation will be paid directly by the Group when they become due.

22. Equity

Capital Stock

As of December 31, 2018 and 2017, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2018	2017
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable	**187,500**	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,004,000 common shares as of December 31, 2018 and 2017.

Equity Reserves

In September 2010, the Parent Company acquired the remaining 40% non-controlling ownership interest of SMC in SMEC and SPDC. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

In July 2018, PEGC acquired the 60% non-controlling ownership interest of ALCO in Alpha Water. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

Retained Earnings

The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P667,627 and P3,054,068 as at December 31, 2018 and 2017, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

December 31, 2016

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
June 7, 2016	June 7, 2016	June 14, 2016	P1.20	P1,500,000
August 11, 2016	August 11, 2016	August 18, 2016	1.20	1,500,000
				P3,000,000

There were no cash dividend declarations to stockholders during the years ended December 31, 2018 and 2017.

Parent Company

On December 23, 2015, the BOD approved the appropriation amounting to P7,700,000 for the payment of the US$700,000, 5-year term loan that was redenominated in 2017 (Note 19). Reversals during 2015 pertain to: (a) construction of power plant amounting to P2,092,750; (b) interest on bonds payable amounting to P446,250; (c) interest on loans payable amounting to P104,000; and (d) expansion projects amounting to P9,128,000.

In 2018, 2017 and 2016, reversals amounted to P3,580,000, P1,154,000 and P2,966,000, respectively, for the debt servicing of the redenominated US$700,000 loan, as intended.

Total appropriated retained earnings of the Parent Company amounted to nil, P3,580,000 and P4,734,000 as at December 31, 2018, 2017, and 2016 respectively.

SMEC, SPPC and SPDC
On December 21, 2016, the BOD of SMEC and SPPC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P1,099,300 and P2,990,300, respectively, pursuant to their IPPA Agreements.

On December 18, 2017, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P2,585,000, P3,514,050 and P474,000, respectively, pursuant to their IPPA Agreements.

On December 21, 2018, the BOD of SPPC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P2,685,700, pursuant to its IPPA Agreement. On the same date, the BOD of SPDC approved the re-appropriation of its remaining P1,566,600 appropriated retained earnings, initially intended for San Roque Optimization pumped-storage project, for the fixed monthly PSALM payments of SPDC, pursuant to its IPPA Agreement.

In 2018, the appropriations reversed by SMEC and SPDC amounted to P290,000 and P67,400, respectively.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P29,408,550, P27,080,250 and P20,507,200 as at December 31, 2018, 2017 and 2016, respectively.

USCS
The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US$600,000	**P26,933,565**

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

Details of distributions paid to USCS holders are as follows:

	2018	2017	2016
February	**P746,068**	P720,611	P689,223
May	**830,491**	799,583	756,804
August	**767,981**	729,868	681,412
November	**870,750**	824,142	777,134
	P3,215,290	P3,074,204	P2,904,573

On February 26, 2019, the Parent Company paid distributions to holders of the US$300,000 USCS issued in August 2015, amounting to P757,133.

On March 11, 2019, the Parent Company's BOD approved the payment of distribution in the total amount of US$11,250, plus applicable taxes, on May 7, 2019 to the holders of the US$300,000 USCS issued in May 2014.

RPS

On March 16, 2018, the Parent Company issued the RPS at an issue price of 100% amounting to US$650,000 (equivalent to P32,751,570, net of issuance costs) in favor of SMC, the Security Holder.

The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. The Security Holder shall have the right to receive distribution at the rate of 6.25% per annum, payable quarterly in arrears every March 16, June 16, September 16 and December 16 of each year commencing on June 16, 2018. The Parent Company has a right to defer this distribution under certain conditions.

The proceeds were used to partially finance the acquisition of the Masinloc Group by the Parent Company (Note 5).

Distributions to RPS Holder

On June 16, September 16 and December 16, 2018, the Parent Company paid distributions to the Security Holder amounting to P543,156, P536,758 and P541,277, respectively.

On February 6, 2019, the Parent Company’s BOD approved the payment of distribution, amounting to US$10,156 on March 16, 2019, to the Security Holder.

23. Revenues

Revenues consist of:

	Note	**2018**	2017	2016
Sale of power	*6, 20*	**P101,294,837**	P70,494,762	P72,250,309
Retail and other power-related services	*6, 7, 20*	**18,808,010**	12,295,813	5,722,121
		P120,102,847	P82,790,575	P77,972,430

24. Cost of Power Sold

Cost of power sold consist of:

	Note	**2018**	2017	2016
Coal, fuel oil and other consumables	*6, 7, 10, 20*	**P32,563,689**	P13,039,144	P10,046,687
Energy fees	*6, 7*	**25,423,530**	23,726,459	20,477,903
Power purchases	*6, 7*	**11,181,239**	10,725,490	7,836,564
Depreciation and amortization	*6, 7, 13, 15*	**9,108,899**	5,842,367	6,164,942
Plant operations and maintenance, and other fees	*6, 7, 20, 21*	**2,540,949**	491,854	637,013
		P80,818,306	P53,825,314	P45,163,109

25. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	Note	**2018**	2017	2016
Taxes and licenses		**P1,171,370**	P945,406	P982,855
Salaries, wages and benefits	*20, 21*	**820,552**	708,162	361,854
Management fees	*20*	**798,039**	664,493	652,167
Outside services		**658,604**	189,268	212,975
Professional fees		**524,726**	136,397	137,303
Rent	*4, 7, 20*	**356,606**	376,499	351,091
Corporate special program		**309,220**	349,667	384,166
Repairs and maintenance		**292,251**	126,906	308,335
Donations		**231,992**	303,426	738,980
Depreciation and amortization	*6, 13, 15*	**231,336**	222,564	176,989
Travel and transportation		**184,140**	132,869	141,463
Impairment losses on trade receivables	*9*	**135,426**	-	958,784
Supplies		**120,342**	210,687	250,200
Advertising and promotions		**51,821**	70,772	119,874
Insurance		**38,260**	19,198	63,827
Miscellaneous		**185,525**	232,667	238,118
		P6,110,210	P4,688,981	P6,078,981

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group’s corporate social responsibility projects.

26. Other Income (Charges)

Other income (charges) consist of:

	Note	**2018**	2017	2016
PSALM monthly fees reduction	*7*	**P1,615,181**	P3,283,745	P1,509,225
Construction revenue	*4, 7*	**140,212**	123,336	226,997
Loss on retirement of equipment	*13*	**(34,869)**	-	-
Construction cost	*4, 7*	**(140,212)**	(123,336)	(226,997)
Foreign exchange losses - net	*30*	**(5,315,726)**	(632,416)	(8,075,159)
Miscellaneous income (charges) - net	*4, 7, 9, 13, 20*	**188,812**	292,836	(315,820)
		(P3,546,602)	P2,944,165	(P6,881,754)

Miscellaneous income (charges) recognized in 2018, 2017 and 2016 mostly pertain to management income, rent income, loss on impairment of PPE and other receivables, marked-to-market gain on derivatives, utilities income and sale of fly ash to related parties (Notes 4, 7, 13, 20 and 31).

27. Income Taxes

The components of income tax expense are as follows:

	Note	**2018**	2017	2016
Current	*28*	**P2,931,295**	P2,003,146	P2,668,503
Deferred		**970,237**	4,176,364	697,256
		P3,901,532	P6,179,510	P3,365,759

The deferred taxes are reported in the consolidated statements of financial position as follows:

	2018	2017
Deferred tax assets	**P1,137,565**	P1,316,926
Deferred tax liabilities	**(8,180,119)**	(7,324,111)
	(P7,042,554)	(P6,007,185)

The movements in deferred tax assets (liabilities) - net are as follows:

December 31, 2018	**Balance at Beginning of Year**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Others**	**Balance at End of Year**
Allowance for impairment losses on trade receivables	**P458,043**	**P40,628**	**P -**	**(P76,554)**	**P422,117**
Defined benefit retirement obligation	**13,303**	**9,758**	**-**	**72,238**	**95,299**
Difference of amortization of borrowing costs over payment and others	**(1,410,812)**	**1,588,000**	**-**	**(124,121)**	**53,067**
Difference of depreciation and other related expenses over monthly lease payments	**(5,077,847)**	**(2,608,623)**	**-**	**63,396**	**(7,623,074)**
Equity reserve for retirement plan	**10,128**	**-**	**(881)**	**-**	**9,247**
Net loss on cash flow hedges	**-**	**-**	**790**	**-**	**790**
	(P6,007,185)	**(P970,237)**	**(P91)**	**(P65,041)**	**(P7,042,554)**

December 31, 2017	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at End of Year
Allowance for impairment losses on trade receivables	P458,043	P -	P -	P -	P458,043
Defined benefit retirement obligation	9,507	3,796	-	-	13,303
Difference of amortization of borrowing costs over payment and others	(268,192)	(1,142,620)	-	-	(1,410,812)
Difference of depreciation and other related expenses over monthly lease payments	(2,040,307)	(3,037,540)	-	-	(5,077,847)
Equity reserve for retirement plan	11,302	-	(1,174)	-	10,128
	(P1,829,647)	(P4,176,364)	(P1,174)	P -	(P6,007,185)

As of December 31, 2018, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
Year 2018	December 31, 2021	P5,941,127	P60,607
Year 2017	December 31, 2020	7,764,487	38,003
Year 2016	December 31, 2019	3,016,102	20,145
		P16,721,716	P118,755

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	**15.11%**	18.06%	17.85%
Availment of optional standard deduction and others	**(13.13%)**	(5.14%)	(3.07%)
Effective income tax rate	**31.98%**	42.92%	44.78%

28. Registrations and License

Registrations with the Board of Investments (BOI)

i. In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the NGCP. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCPC's request on the further extension of the ITH reckoning date from July 2016 to September 2017 was likewise approved by the BOI on December 5, 2018. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

ii. On September 20, 2016, LPPC was registered with the BOI under the Omnibus Investment Code of 1987 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LPPC's BOI registrations.

   In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LPPC to SCPC. On July 13, 2018, BOI granted the SCPC's request to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 commenced on March 26, 2018.

   On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPC, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPC and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". The COA shall be valid for one (1) year from the date of issuance. All capital equipment, spare parts and accessories imported by the Company for the construction of the Phase II of the Power Plant were ordered, delivered and completed within the validity period of the COA.

iii. SMEC, SPDC and SPPC are registered with the BOI as administrator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.

iv. On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investments Code of 1987, as New Domestic Producer of Coal on a Non-pioneer Status.

v. On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 300 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for 3 years from December 2018 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On June 25, 2015, BOI approved the amendments on the registration which includes the downgrade of registered capacity from 600 MW to 300 MW and the extension of start of commercial operation date to December 2019. However, the ITH reckoning date remains to be the same (December 2018).

On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10 MW BESS Project. The BESS Facility provides 10 MW of interconnected capacity and enhances the reliability of the Luzon grid using the Advancion energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for 6 years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration.

vi. On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20 MW Kabankalan Advancion Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for 6 years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.

License Granted by the ERC

On August 04, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another 5 years from August 22, 2016 up to August 21, 2021.

29. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	**P8,281,774**	P8,216,916	P4,150,662
Distributions to USCS holders for the year	**(3,229,781)**	(3,076,042)	(2,938,623)
Distributions to RPS holder for the year	**(1,710,194)**	-	-
Net income attributable to common shareholders of the Parent Company (a)	**3,341,799**	5,140,874	1,212,039
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004	1,250,004
Basic/Diluted Earnings Per Share (a/b)	**P2.67**	P4.11	P0.97

As of December 31, 2018, 2017 and 2016, the Group has no dilutive debt or equity.

30. Financial Risk and Capital Management Objectives and Policies

<u>Objectives and Policies</u>
The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, restricted cash, noncurrent receivables, loans payable, long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group which are call spread swaps, currency forwards and commodity swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Philippine SEC and/or the PDEx.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group’s exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

Interest Rate Risk Table
The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2018	**1 Year or Less**	**>1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P2,436,391**	**P2,896,390**	**P9,834,640**	**P13,825,163**	**P23,232,643**	**P75,896,773**	**P128,122,000**
Interest rate	**6.2836% to 7.7521%**	**6.2836% to 7.7521%**	**4.3458% to 7.7521%**	**5.3750% to 7.7521%**	**4.7575% to 7.7521%**	**5.1792% to 7.7521%**	
Foreign currency-denominated (expressed in Philippine peso)	**1,949,148**	**2,477,048**	**2,606,388**	**1,838,347**	**6,814,415**	**12,221,564**	**27,906,910**
Interest rate	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**5.5959% to 5.5959%**	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**648,209**	**822,347**	**11,381,301**	**609,014**	**36,444,509**	**4,023,222**	**53,928,602**
Interest rate	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	
	P5,033,748	**P6,195,785**	**P23,822,329**	**P16,272,524**	**P66,491,567**	**P92,141,559**	**P209,957,512**

December 31, 2017	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,200,000	P1,200,000	P1,620,000	P8,508,250	P12,477,960	P66,993,790	P92,000,000
Interest rate	6.2836% to 6.9265%	6.2836% to 6.9265%	6.2836% to 6.9265%	4.3458% to 6.9265%	5.3750% to 6.9265%	4.7575% to 6.9265%	
	P1,200,000	P1,200,000	P1,620,000	P8,508,250	P12,477,960	P66,993,790	P92,000,000

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P109,809, nil and P14,127 in 2018, 2017 and 2016, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk
The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using derivative instruments such as foreign currency forwards to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) and long-term call spread swaps are entered into to manage foreign currency risks relating to foreign currency-denominated obligations and long- term borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and

- changes in the timing of the hedged transactions.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

		December 31, 2018		December 31, 2017	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*8*	**US$289,050**	**P15,198,248**	US$102,067	P5,096,218
Trade and other receivables	*9*	**157,125**	**8,261,638**	85,664	4,277,192
Investment in debt instruments		**1,027**	**54,009**	-	-
		447,202	**23,513,895**	187,731	9,373,410
Liabilities					
Loans payable	*17*	**165,000**	**8,675,700**	-	-
Accounts payable and accrued expenses	*18*	**153,013**	**8,045,444**	122,259	6,104,423
Long-term debt (including current maturities)	*19*	**1,556,400**	**81,835,512**	-	-
Finance lease liabilities (including current portion)	*7*	**1,498,645**	**78,798,731**	1,693,623	84,562,581
Other noncurrent liabilities		**3,456**	**181,705**	-	-
		3,376,514	**177,537,092**	1,815,882	90,667,004
Net foreign currency-denominated monetary liabilities		**US$2,929,312**	**P154,023,197**	US$1,628,151	P81,293,594

The Group reported net losses on foreign exchange amounting to P5,315,726, P632,416 and P8,075,159 in 2018, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 26). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2018	**52.58**
December 31, 2017	49.93
December 31, 2016	49.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2018	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P249,946)**	**(P214,066)**	**P249,946**	**P214,066**
Trade and other receivables	**(89,044)**	**(133,806)**	**89,044**	**133,806**
Investment in debt instruments	**-**	**(1,027)**	**-**	**1,027**
	(338,990)	**(348,899)**	**338,990**	**348,899**
Loans payable	**120,000**	**129,000**	**(120,000)**	**(129,000)**
Accounts payable and accrued expenses	**46,673**	**138,988**	**(46,673)**	**(138,988)**
Long-term debt (including current maturities)	**850,000**	**1,301,400**	**(850,000)**	**(1,301,400)**
Finance lease liabilities (including current portion)	**784,542**	**1,049,570**	**(784,542)**	**(1,049,570)**
Other noncurrent liabilities	**3,132**	**2,516**	**(3,132)**	**(2,516)**
	1,804,347	**2,621,474**	**(1,804,347)**	**(2,621,474)**
	P1,465,357	**P2,272,575**	**(P1,465,357)**	**(P2,272,575)**

**Consistent with SMC's disclosure on Foreign Currency Risk; To account for the Impact of Masinloc Entities in Equity (Translation reserve)*

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2017	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P102,067)	(P71,447)	P102,067	P71,447
Trade and other receivables	(85,664)	(59,965)	85,664	59,965
	(187,731)	(131,412)	187,731	131,412
Accounts payable and accrued expenses	122,259	85,581	(122,259)	(85,581)
Finance lease liabilities (including current portion)	1,693,623	1,185,536	(1,693,623)	(1,185,536)
Other noncurrent liabilities	-	-	-	-
	1,815,882	1,271,117	(1,815,882)	(1,271,117)
	P1,628,151	P1,139,705	(P1,628,151)	(P1,139,705)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

<u>Commodity Price Risk</u>
Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group, through SMC, enters into commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

Commodity Swaps. Commodity swaps are used to manage the Group's exposures to volatility in prices of coal.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management:

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,511,862	P28,511,862	P28,511,862	P -	P -	P -
Trade and other receivables - net*	32,964,489	32,964,489	32,964,489	-	-	-
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	54,009	54,009	54,009	-	-	-
Derivative asset not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	96,203	96,203	96,203	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	163,630	163,630	-	-	163,630	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	344,440	371,445	79,143	39,427	115,903	136,972
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	4,742,219	4,742,219	1,045,598	3,696,621	-	-
Financial Liabilities						
Loans payable	8,675,700	8,675,700	8,675,700	-	-	-
Accounts payable and accrued expenses*	23,001,830	23,001,830	23,001,830	-	-	-
Long-term debt - net (including current maturities)	206,965,260	281,593,786	16,872,297	17,734,562	134,539,115	112,447,812
Finance lease liabilities (including current portion)	142,007,061	169,122,008	26,999,954	29,670,859	76,222,388	36,228,807
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	385,232	383,011	53,049	55,533	89,331	185,098

**Excluding statutory receivables and payables*

December 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,655,359	P28,655,369	P28,655,369	P -	P -	P -
Trade and other receivables - net*	20,384,901	20,384,901	20,384,901	-	-	-
Derivative asset not designated as cash flow hedge (included under "Other noncurrent assets" account)	61,903	61,903	-	61,903	-	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	278,965	322,012	60,773	39,371	115,904	105,964
Restricted cash (included under "Other noncurrent assets" account)	4,805,175	4,805,175	-	4,805,175	-	-
Financial Liabilities						
Loans payable	5,930,000	5,938,566	5,938,566	-	-	-
Accounts payable and accrued expenses*	24,818,444	24,818,444	24,818,444	-	-	-
Long-term debt - net (including current maturities)	90,728,701	133,277,391	6,837,616	6,760,234	38,229,217	81,450,324
Finance lease liabilities (including current portion)	154,793,690	189,584,834	25,020,549	26,220,439	82,794,848	55,548,998
Other noncurrent liabilities (including current portion of Concession liability)	171,174	246,756	8,400	74,118	25,200	139,038

**Excluding statutory receivables and payables*

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk as of December 31, without considering the effects of other risk mitigation techniques, is presented below:

	2018	2017
Cash and cash equivalents (excluding cash on hand)	**P28,509,806**	P28,653,631
Trade and other receivables - net*	**32,964,489**	20,384,901
Investment in debt instruments	**54,009**	-
Derivative asset not designated as cash flow hedge	**96,203**	61,903
Derivative assets designated as cash flow hedge	**163,630**	-
Noncurrent receivables	**344,440**	278,965
Restricted cash	**4,742,219**	4,805,175
	P66,874,796	P54,184,575

**Excluding statutory receivables*

The table below presents the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2018					
	Financial Assets at Amortized Cost					
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P28,509,806**	**P -**	**P -**	**P -**	**P -**	**P28,509,806**
Trade and other receivables	**-**	**32,964,489**	**2,574,423**	**-**	**-**	**35,538,912**
Investment in debt instruments	**54,009**	**-**	**-**	**-**	**-**	**54,009**
Derivative asset not designated as cash flow hedge	**-**	**-**	**-**	**96,203**	**-**	**96,203**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**163,630**	**163,630**
Noncurrent receivables	**-**	**344,440**	**-**	**-**	**-**	**344,440**
Restricted cash	**4,742,219**	**-**	**-**	**-**	**-**	**4,742,219**
	P33,306,034	**P33,308,929**	**P2,574,423**	**P96,203**	**P163,630**	**P69,449,219**

Receivables that are not credit impaired are considered high grade since the counterparties have strong financial capacity and business performance and with the lowest default risk.

The aging of trade and other receivables as of December 31 is as follows:

	2018				2017			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P10,003,553**	**P1,283,318**	**P5,294,148**	**P16,581,019**	P6,824,541	P647,896	P1,106,847	P8,579,284
Past due:								
1-30 days	**2,454,185**	**145,195**	**421,531**	**3,020,911**	934,933	68,034	161,730	1,164,697
31-60 days	**1,022,965**	**101,006**	**12,443**	**1,136,414**	410,187	71,377	6,362	487,926
61-90 days	**280,800**	**173,005**	**9,209**	**463,014**	184,690	1,001	2,414	188,105
Over 90 days	**7,641,151**	**6,353,341**	**425,259**	**14,419,751**	5,977,751	5,886,286	602,837	12,466,874
	P21,402,654	**P8,055,865**	**P6,162,590**	**P35,621,109**	P14,332,102	P6,674,594	P1,880,190	P22,886,886

Past due trade receivables more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The credit risk for cash and cash equivalents, investment in debt instruments, derivative assets and restricted cash is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 45%, 52% and 51% of the Group's total revenues for the years ended December 31, 2018, 2017 and 2016, respectively.

The Group does not execute any credit guarantee in favor of any counterparty.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, RPS and USCS (Notes 19 and 22).

The Group defines capital as capital stock, additional paid-in capital, RPS, USCS and retained earnings, both appropriated and unappropriated. Other components of equity such as equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

There were no changes in the Group's approach to capital management during the year.

31. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P28,511,862**	**P28,511,862**	P28,655,359	P28,655,359
Trade and other receivables - net*	**32,964,489**	**32,964,489**	20,384,901	20,384,901
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	**54,009**	**54,009**	-	-
Derivative asset not designated as cash flow hedge (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**96,203**	**96,203**	61,903	61,903
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	**163,630**	**163,630**	-	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**344,440**	**344,440**	278,965	278,965
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**4,742,219**	**4,742,219**	4,805,175	4,805,175
	P66,876,852	**P66,876,852**	P54,186,303	P54,186,303
Financial Liabilities				
Loans payable	**P8,675,700**	**P8,675,700**	P5,930,000	P5,930,000
Accounts payable and accrued expenses*	**23,001,830**	**23,001,830**	24,818,444	24,818,444
Long-term debt - net (including current maturities)	**206,965,260**	**209,582,998**	90,728,701	96,948,336
Finance lease liabilities (including current portion)	**142,007,061**	**142,007,061**	154,793,690	154,793,690
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**385,232**	**392,867**	171,174	171,174
	P381,035,083	**P383,660,456**	P276,442,009	P282,661,644

**Excluding statutory receivables and payables*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Noncurrent Receivables, and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and restricted cash, the carrying amounts approximate their fair values, since the effect of discounting is not considered material.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs. The fair values of the derivatives have been categorized as Level 2 in the fair value hierarchy.

Loans Payable and Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 5.22% to 7.06% and 2.47% to 5.70% as of December 31, 2018 and December 31, 2017, respectively. Discount rates used for foreign currency-denominated loans range from 2.46% to 2.97% as of December 31, 2018. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of peso-denominated bonds has been categorized as Level 1 and interest-bearing fixed-rate loans, finance lease liabilities and other noncurrent liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risks. The portfolio is a mixture of instruments including forwards and swaps.

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps
As of December 31, 2018, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. As of December 31, 2018, the positive fair value of the call spread swaps amounted to P163,630, included under "Other noncurrent assets" account.

The table below provides for a reconciliation of the components of equity and other comprehensive income items, net of tax, resulting from cash flow hedge accounting as of December 31, 2018:

	Cost of Hedging Reserve
Balance at beginning of year	**P -**
Changes in fair value of derivatives	**(24,747)**
Amount reclassified to profit or loss -	
Interest expense and other financing charges	**22,113**
Income tax benefit	**790**
Balance at end of year	**(P1,844)**

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the year ended December 31, 2018.

The Group has no outstanding derivative instruments accounted as cash flow hedges as of December 31, 2017.

Derivative Instruments not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives
Freestanding derivatives consist of foreign currency and commodity derivatives entered into by the Group.

Currency Forwards
The Group has outstanding foreign currency forward contract with notional amount of US$5,000 as of December 31, 2018 which will mature in 2019. The negative fair value of this currency forward amounted to P983 as of December 31, 2018 (Note 18).

Commodity Swap
The Group has an outstanding fixed swap agreement covering the coal requirements of a subsidiary for the calendar year 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swap is 60,000 metric tons as of December 31,

2018 and 2017. The positive fair value of this swap amounted to P96,203 and P61,903 as of December 31, 2018 and 2017, respectively (Notes 11 and 16).
The Group recognized marked-to-market gains from freestanding derivatives amounting to P23,036 and P50,470 in 2018 and 2017, respectively (Note 26).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2018	2017
Balance at beginning of year	**P61,903**	P -
Net change in fair value of derivatives:		
Designated as accounting hedge	**185,743**	-
Not designated as accounting hedge	**23,036**	50,470
	270,682	50,470
Less fair value of settled instruments	**11,832**	(11,433)
Balance at end of year	**P258,850**	P61,903

32. Supplemental Cash Flows Information

The following table summarizes the changes in liabilities and equity arising from financing activities, including both changes arising from cash flows and non-cash changes:

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Redeemable Perpetual Securities	Shareholder Advances	Total
Balance as of January 1, 2018	**P5,930,000**	**P90,728,701**	**P154,793,690**	**P -**	**P -**	**P251,452,391**
Changes from financing cash flows						
Proceeds from borrowings	**41,937,600**	**106,026,200**	**-**	**-**	**7,789,500**	**155,753,300**
Proceeds from issuance of RPS	**-**	**-**	**-**	**32,751,570**	**-**	**32,751,570**
Payments of borrowings	**(41,510,000)**	**(22,112,232)**	**-**	**-**	**(8,013,750)**	**(71,635,982)**
Payments of finance lease liabilities	**-**	**-**	**(25,715,487)**	**-**	**-**	**(25,715,487)**
Total changes from financing cash flows	**427,600**	**83,913,968**	**(25,715,487)**	**32,751,570**	**(224,250)**	**91,153,401**
Acquisition of subsidiaries	**2,343,600**	**32,523,960**	**30,775**	**-**	**-**	**34,898,335**
Effect of changes in foreign exchange rates	**(48,000)**	**1,263,550**	**4,510,368**	**-**	**224,250**	**5,950,168**
Other changes	**22,500**	**(1,464,919)**	**8,387,715**	**-**	**-**	**6,945,296**
Balance as of December 31, 2018	**P8,675,700**	**P206,965,260**	**P142,007,061**	**P32,751,570**	**P -**	**P390,399,591**

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Total
Balance as of January 1, 2017	P -	P66,323,726	P170,089,536	P236,413,262
Changes from financing cash flows				
Proceeds from borrowings	113,419,200	77,000,000	-	190,419,200
Payments of borrowings	(107,782,255)	(53,110,468)	-	(160,892,723)
Payments of finance lease liabilities	-	-	(24,874,993)	(24,874,993)
Total changes from financing cash flows	5,636,945	23,889,532	(24,874,993)	4,651,484
Effect of changes in foreign exchange rates	293,055	440,164	497,704	1,230,923
Other changes	-	75,279	9,081,443	9,156,722
Balance as of December 31, 2017	P5,930,000	P90,728,701	P154,793,690	P251,452,391

33. Other Matters

a. EPIRA

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 7).

The EPIRA requires generation and DU companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2018 and 2017.

b. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined.

i. *Temporary Restraining Order (TRO) Issued to MERALCO.*

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for Temporary Restraining Order (TRO) and/or Preliminary Injunction (“Petition”) filed in the Supreme Court (SC) by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco’s customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition (“Counter Petition”) which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the SC issued an order treating the Counter Petition as in the nature of a Third-Party Complaint and

granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.
On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining the PEMC and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TRO issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the SC.

ii. *ERC Order Voiding WESM Prices*
Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap will be decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. On May 9, 2014, the ERC issued an order directing PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices.Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the ERC order. Other generators also requested the SC to stop the implementation of the ERC order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI, filed before the Court of Appeals (CA) a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 2014, March 27, 2014, and May 9, 2014. On the other hand, MPPCL filed its Petition for Review with the CA on December 12, 2014.

After consolidating the cases, the CA, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL declaring the ERC orders null and void and set aside the orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months November to December 2013.

Motions for reconsideration of the November 7, 2017 decision and motions for intervention and motions to admit motions for reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the CA denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said Resolution of the CA dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration, while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018. To date, the CA has yet to resolve the aforesaid Motions, Comments, and Oppositions filed by the various parties.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,321,785, plus interest.

iii. *Generation Payments to PSALM*

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City ("RTC Case"). In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Illijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this order, PSALM filed a petition for certiorari with the Court CA seeking to annul the RTC's orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders". The CA, however, denied the petition filed by PSALM in its decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the CA upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. On March 9, 2018, SPPC filed its Opposition to PSALM's Motion for Reconsideration of the CA Decision. In a Resolution dated July 12, 2018 (the "CA Resolution"), the CA denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the SC praying for the reversal and nullification of the CA Decision and the CA Resolution.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. The issue is now pending resolution with the RTC.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the IPPA Agreement in 2022.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

iv. Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$60,000. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of the RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

v. Civil Cases

SMEC

On June 17, 2016, SMEC filed with the RTC, Pasig City ("RTC Pasig") a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignation without Tender ("Omnibus Motion"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration ("MR") to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and Team Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As of December 31, 2018 and 2017, the total amount consigned with the RTC Pasig is P491,242, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position.

c. Commitments

The outstanding purchase commitments of the Group amounted to P7,550,637 and P1,996,473 as of December 31, 2018 and 2017, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2018 and 2017 is approximately P17,689,641 and P12,861,746, respectively.

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