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SECURITIES AND EXCHANGE COMMISSION

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Company Name SMC GLOBAL POWER HOLDINGS CORP.
Industry Classification Financial Holding Company Activities
Company Type Stock Corporation

Document Information

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(Business Address: No. Street City/Town/Province)

Virgilio S. Jacinto
 Contact Person

(02) 632-3143
 Company Telephone Number

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Month *Day*
 Fiscal Year

SEC Form 17-Q
 (3rd Quarter ended 30 September 2017)
 FORM TYPE

0
6
1st
Tues.

Month *Day*
 Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic
Foreign

 To be accomplished by SEC Personnel concerned

File Number

LCU

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**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended September 30, 2017
2. Commission identification number CS2008-01099
3. BIR Tax Identification No 006-960-000-000
4. Exact name of issuer as specified in its charter SMC GLOBAL POWER HOLDINGS CORP.
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. No. 155 EDSA, Brgy. Wack-Wack
Mandaluyong City 1550
Address of issuer's principal office Postal Code
8. (632) 702-4500
Issuer's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Php15 billion worth of Fixed Rate Bonds (registered on 23 June 2016)

Number of shares of stock and
debt outstanding (as of September 30, 2017)

Common Shares	1,250,004,000
Consolidated Total Liabilities (in Thousands)	Php295,136,129

11. Are any or all of the securities listed on a Stock Exchange?
Yes [] No []

If yes, state name of such Stock Exchange and the class/es of securities listed herein.

12. Indicate by check mark whether the registrant:
 - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
Yes [] No []
 - (b) has been subject to such filing requirements for the past ninety (90) days.
Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended September 30, 2016) and Selected Notes to the Consolidated Financial Statements are hereto attached as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.

The information required by Part III, Paragraph (A)(2)(b) of "Annex C" is attached hereto as **Annex "B"**.

PART II - OTHER INFORMATION

There are no other information to be disclosed under this Part II which has not been previously reported by SMC Global Power in a report under SEC Form 17-C.

SIGNATURES

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

Issuer **SMC GLOBAL POWER HOLDINGS CORP.**

Signature and Title 
PAUL BERNARD D. CAUSON
Chief Finance Officer/ Authorized Signatory

Date November 10, 2017

Signature and Title 
RAMON U. AGAY
Comptroller/ Authorized Signatory

Date November 10, 2017


SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(In Thousands)

ANNEX "A"

	Note	2017 Unaudited	2016 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	10, 11	P 31,257,793	P 21,491,385
Trade and other receivables - net	5, 10, 11	22,319,295	22,342,846
Inventories	5	1,827,399	2,272,289
Prepaid expenses and other current assets		16,830,215	17,683,020
		72,234,702	63,789,540
Assets held for sale		64,796	184,324
Total Current Assets		72,299,498	63,973,864
Noncurrent Assets			
Investments and advances - net		16,520,615	16,245,454
Property, plant and equipment - net	6	250,611,180	246,488,027
Deferred exploration and development costs		696,657	693,379
Intangible assets and goodwill - net		2,580,903	2,572,119
Deferred tax assets		2,285,010	2,955,570
Other noncurrent assets - net	5, 10, 11	8,282,020	1,020,771
Total Noncurrent Assets		280,976,385	269,975,320
TOTAL ASSETS		P 353,275,883	P 333,949,184
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	10, 11	P 19,873,440	P -
Accounts payable and accrued expenses	5, 10, 11	37,475,186	37,729,415
Finance lease liabilities - current portion	7, 10, 11	16,032,179	16,344,246
Income tax payable		206,202	127,198
Current maturities of long term debt - net of debt issue costs	5, 10, 11	812,713	1,040,690
Total Current Liabilities		74,399,720	55,241,549
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 10, 11	70,302,566	65,283,036
Deferred tax liabilities		5,850,434	4,785,217
Finance lease liabilities - net of current portion	7, 10, 11	144,330,285	153,745,290
Other noncurrent liabilities	10, 11	253,124	223,468
Total Noncurrent Liabilities		220,736,409	224,037,011
Total Liabilities		295,136,129	279,278,560
Equity			
Capital stock		1,062,504	1,062,504
Additional paid-in capital		2,490,000	2,490,000
Undated subordinated capital securities	9	26,933,565	26,933,565
Equity reserves		785,279	785,279
Reserve for retirement plan		(26,371)	(26,371)
Retained earnings		26,894,777	23,425,647
Total Equity		58,139,754	54,670,624
TOTAL LIABILITIES AND EQUITY		P 353,275,883	P 333,949,184

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

Certified Correct:


PAUL BERNARD D. CAUSON
Chief Finance Officer

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Thousands, Except Per Share Data)

	Note	For the Quarters Ended			
		2017		2016	
		Unaudited	Unaudited	Unaudited	Unaudited
REVENUES	3, 5	P 62,116,579	P 60,699,870	P 21,419,520	P 19,628,165
COST AND EXPENSES	5, 6, 7	38,992,579	34,160,476	13,902,468	11,456,489
GROSS PROFIT		23,124,000	26,539,394	7,517,052	8,171,676
SELLING AND ADMINISTRATIVE EXPENSES		3,455,708	3,700,974	1,164,115	1,074,146
INCOME FROM OPERATIONS		19,668,292	22,838,420	6,352,937	7,097,530
INTEREST INCOME		298,428	151,505	194,437	35,538
INTEREST EXPENSE AND OTHER FINANCING CHARGES	7	(10,068,610)	(9,035,343)	(3,158,940)	(2,949,342)
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT		(53,006)	(155,108)	(7,649)	(54,903)
OTHER INCOME (CHARGES) - Net	4	(744,314)	(4,594,739)	885,921	(4,750,822)
INCOME BEFORE INCOME TAX		9,100,790	9,204,735	4,266,706	(621,999)
INCOME TAX EXPENSE - Net		3,381,598	3,468,689	1,202,769	388,372
NET INCOME (LOSS)/ TOTAL COMPREHENSIVE INCOME (LOSS)		P 5,719,192	P 5,736,046	P 3,063,937	P (1,010,371)
Basic/Diluted Earnings (Losses) Per Share	8	P 2.73	P 2.84	P 1.83	P (1.40)

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

Certified Correct:


PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Thousands)

	Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Reserves	Retirement Plan	Reserve for	Retained Earnings	Total Equity
Balance as of January 1, 2017 (Audited)	P 1,062,504	P 2,490,000	P 26,933,565	P 785,279	P -	P (26,371)	P 23,425,647	P 54,670,624
Net income/total comprehensive income	-	-	-	-	-	-	5,719,192	5,719,192
Distributions paid	-	-	-	-	-	-	(2,250,062)	(2,250,062)
Balance as of September 30, 2017 (Unaudited)	P 1,062,504	P 2,490,000	P 26,933,565	P 785,279	P -	P (26,371)	P 26,895,777	P 58,139,754
Balance as of January 1, 2016 (Audited)	P 1,062,504	P 2,490,000	P 26,933,565	P 785,279	P -	P (15,648)	P 25,179,558	P 56,435,258
Net income/total comprehensive income	-	-	-	-	-	-	5,736,046	5,736,046
Dividends declared	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Distributions paid	-	-	-	-	-	-	(2,127,439)	(2,127,439)
Balance as of September 30, 2016 (Unaudited)	P 1,062,504	P 2,490,000	P 26,933,565	P 785,279	P -	P (15,648)	P 25,788,165	P 57,043,865

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

Certified Correct:


PAUL BERNARD D. CAUSON
Chief Finance Officer

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In Thousands)

	2017 Unaudited	2016 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 9,100,790	P 9,204,735
Adjustments for:		
Interest expense and other financing charges	10,068,610	9,035,343
Depreciation and amortization	4,373,539	4,982,728
Unrealized foreign exchange losses - net	1,548,149	3,991,057
Impairment losses on trade and other receivables	69,322	44,016
Equity in net losses of associates and joint ventures	53,006	155,108
Retirement benefit expense	19,658	14,489
Unrealized marked-to-market gain - net	(20,859)	-
Interest income	(298,428)	(151,505)
Impairment loss on property, plant and equipment	-	283,417
Gain on disposal of property, plant and equipment	-	(1,910)
Operating income before working capital changes	24,913,787	27,557,478
Decrease (increase) in:		
Trade and other receivables - net	202,761	(1,405,329)
Inventories	444,890	195,785
Prepaid expenses and other current assets	972,333	(365,007)
Decrease (increase) in:		
Accounts payable and accrued expenses	174,407	(179,924)
Other noncurrent liabilities	9,997	46,425
Cash generated from operations	26,718,175	25,849,428
Interest income received	230,345	159,194
Finance cost paid	(3,392,346)	(2,002,911)
Income taxes paid	(1,566,817)	(2,101,701)
Net cash flows provided by operating activities	21,989,357	21,904,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to investments and advances	(328,167)	(5,801,089)
Additions to property, plant and equipment	(7,500,463)	(12,462,452)
Proceeds from disposal of property, plant and equipment	-	25,470
Additions to deferred exploration and development costs	(3,278)	(2,398)
Additions to intangible assets	(89,941)	(228,839)
Additions to other noncurrent assets	(7,240,390)	(675,820)
Net cash flows used in investing activities	(15,162,239)	(19,145,128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	86,559,200	14,364,000
Proceeds from long-term borrowings	57,000,000	30,787,121
Distributions to undated subordinated capital securities holders	(2,250,062)	(2,127,439)
Payments of finance lease liabilities	(18,592,057)	(17,786,559)
Payments of long-term borrowings	(53,110,468)	(14,460,900)
Payments of short-term borrowings	(66,778,640)	(14,364,000)
Dividends paid	-	(3,000,000)
Net cash flows provided by (used in) financing activities	2,827,973	(6,587,777)
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	111,317	163,241
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,766,408	(3,665,654)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,491,385	22,241,361
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P 31,257,793	P 18,575,707

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

Certified Correct:


PAUL BERNARD D. CAUSON
Chief Finance Officer

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE ON AGING OF TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2017
(Amounts in Thousands)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 15,303,690	P 7,844,800	P 901,348	P 308,439	P 193,173	P 6,055,930
Non-Trade	6,895,718	551,383	38,722	56,843	66,470	6,182,300
Related Parties	2,641,027	2,306,808	92,295	114,436	3,429	124,059
Total	24,840,435	10,702,991	1,032,365	479,718	263,072	12,362,289
Less allowance for impairment losses	2,521,140					
Net	P <u>22,319,295</u>					

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer/ Authorized Signatory



SMC Global Power Holdings Corp.

Proceeds from Issuance of P15B Fixed-Rate Bonds consisting of Series "A, B and C" Bonds

September 30, 2017

(Amounts in Thousands)

i) Gross and Net Proceeds as Disclosed in the Final Prospectus

Gross Proceeds		P	15,000,000.00
Estimated Fees, Commissions, and Expenses relating to the Issue:			
Documentary Stamp Tax	P	75,000.00	
SEC Registration Fee		4,356.00	
SEC Legal Research and Publication Fee		56.00	
SEC Publication Fee		100.00	
Gross Underwriting Fee and Other Professional Fees		90,645.00	
PDEX Listing Application Fee		300.00	
Printing Cost		200.00	
Trustee Fees		300.00	
Paying Agency and Registry Fees		200.00	
Miscellaneous Fees		300.00	171,457.00
Net Proceeds		P	<u>14,828,543.00</u>

ii) Actual Gross and Net Proceeds

Gross Proceeds		P	15,000,000.00
Documentary Stamp Tax	P	75,000.00	
SEC Registration Fee		4,313.00	
SEC Legal Research and Publication Fee		43.00	
SEC Publication Fee		128.00	
Gross Underwriting Fee and Other Professional Fees		87,775.00	
PDEX Listing Application Fee		514.00	
Printing Cost		208.00	
Trustee Fees		300.00	
Paying Agency and Registry Fees		876.00	
Miscellaneous Fees		383.00	169,540.00
		P	<u>14,830,460.00</u>

iii) Each Expenditure Item where the Proceeds were Used

Full payment of short term loan with BDO in the amount of U.S. \$300 million - principal & interest		P	14,280,868.00
General corporate purposes			
Final and expanded withholding taxes	P	32,216.00	
Operating expenses		517,376.00	549,592.00
		P	<u>14,830,460.00</u>

iv) Balance of the Proceeds as of the End of Reporting Period

P -

Certified Correct:


Paul Bernard D. Causon

Chief Finance Officer/Authorized Signatory



SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

SMC Global Power Holdings Corp. (“SMC Global Power” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) prepared its consolidated financial statements as of and for the period ended September 30, 2017 and comparative financial statements for the same period in 2016 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest thousand (000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements.

Adoption of New and Amended Standards

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

The Group has adopted the following PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments improve disclosures about an entity’s net debt relevant to understanding an entity’s cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.
- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:
 - Clarification of the Scope of the Standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*). The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of these foregoing amended standards did not have a material effect on the consolidated financial statements.

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 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 interpretations on the respective effective dates:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:
 - Measuring an associate or joint venture at fair value (*Amendments to PAS 28, Investments in Associates*). 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 fair value through profit or loss (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.

The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- 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 classifications 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, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. Potential impact is being assessed.

- 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 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. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group'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 new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarify 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.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. When there is uncertainty over income tax treatments, this interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

On initial application, an entity shall apply this interpretation either: (a) retrospectively applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this interpretation.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this interpretation for an earlier period, it shall disclose that fact.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, 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 International Accounting Standards Board 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.

2. Use of Judgments, Estimates and Assumption

In preparing these consolidated 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, 2016.

3. 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 consolidated financial statements to have information about each component of the Group's profit or loss.

The Group's inter-segment sales are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

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 agreements, 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, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	September 30	
	2017	2016
Manila Electric Company (Meralco)	P34,485,755	P32,045,180
WESM	3,489,881	3,003,818

Financial information about reportable segments follows:

	For the Period Ended September 30											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues												
External	P53,730,166	P56,525,916	P8,386,393	P4,173,954	P -	P -	P -	P -	P -	P -	P62,116,579	P60,699,870
Inter-segment	9,558,123	6,288,623	76,841	7,888	-	-	128,968	-	(9,763,932)	(6,306,511)	-	-
	63,288,309	62,824,539	8,463,234	4,181,842	-	-	128,968	-	(9,763,932)	(6,306,511)	62,116,579	60,699,870
Cost and Expenses												
Cost of power sold	41,269,961	36,269,756	8,051,904	4,136,822	-	-	-	-	(10,329,286)	(6,246,102)	38,992,579	34,160,476
Selling and administrative expenses	3,024,637	3,266,421	305,480	104,572	16,488	21,139	1,245,499	1,297,728	(1,136,406)	(988,886)	3,455,708	3,700,974
	44,294,598	39,536,177	8,357,384	4,241,394	16,488	21,139	1,245,499	1,297,728	(11,465,692)	(7,234,988)	42,448,287	37,861,450
Segment Result	P18,993,711	P23,288,362	P105,850	(P59,552)	(P16,498)	(P21,139)	(P1,116,531)	(P1,297,728)	P1,701,760	P928,477	P19,668,292	P22,838,420

4. Other Income (Charges)

Other income (charges) consists of:

	September 30	
	2017	2016
PSALM* monthly fees reduction	P1,904,397	P318,906
Construction revenue	89,711	189,982
Surcharges and late payment of customers	41,641	63,098
Gain on derivatives - net	20,198	-
Management fee	18,111	43,335
Rental income	8,062	36,678
Construction cost	(89,711)	(189,982)
Foreign exchange losses - net	(2,775,356)	(4,791,856)
Impairment loss on property, plant and equipment	-	(283,417)
Miscellaneous income - net	38,633	18,517
	(P744,314)	(P4,594,739)

* *Power Sector Assets and Liabilities Management Corporation*

PSALM monthly fees reduction pertain to the approved reduction in monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2017 and 2016.

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 assets.

Miscellaneous income mostly pertain to sale of fly ash to a related party and of scrap materials to a third party.

5. Related Party Disclosures

The Parent Company, certain subsidiaries and associates and joint ventures in the normal course of business, purchases products and services from one another. 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 September 30, 2017 and December 31, 2016:

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions																																																																																																																	
SMC	2017	P47,777	P461,395	P37,808	P2,817	On demand or 30 days; non-interest bearing	Unsecured; no impairment																																																																																																																	
	2016	-	660,590	252	6,201			Entities Under Common Control	2017	1,674,567	715,418	750,825	210,227	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	10,248,500	3,300,854	1,589,923	562,408	2017	-	-	-	-	180 days; non-interest bearing	Unsecured; no impairment	2016	17,883,913	-	4,063,525	-	Associate	2017	676,626	259,459	116,421	94,590	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	1,004,967	198,445	90,767	36,040	2017	67,546	-	1,454,922	-	92 days; interest bearing	Unsecured; no impairment	2016	-	-	-	-	2017	10,004	-	250,569	-	9 years; interest bearing	Unsecured; no impairment	2016	12,929	-	254,827	-	Associates of Entities Under Common Control	2017	649,404	12,264	226,318	4,784	30 days; non-interest bearing	Unsecured; no impairment	2016	763,309	199,635	102,256	28,787	2017	-	-	-	-	7 years; interest bearing	Secured	2016	-	-	-	2,687,451	Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615
Entities Under Common Control	2017	1,674,567	715,418	750,825	210,227	On demand or 30 days; non-interest bearing	Unsecured; no impairment																																																																																																																	
	2016	10,248,500	3,300,854	1,589,923	562,408				2017	-	-	-	-	180 days; non-interest bearing	Unsecured; no impairment	2016	17,883,913	-	4,063,525	-	Associate	2017	676,626	259,459	116,421	94,590	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	1,004,967	198,445	90,767		36,040	2017	67,546	-	1,454,922	-	92 days; interest bearing	Unsecured; no impairment	2016	-	-	-	-	2017	10,004	-	250,569	-	9 years; interest bearing	Unsecured; no impairment	2016	12,929	-	254,827	-	Associates of Entities Under Common Control	2017	649,404	12,264	226,318	4,784	30 days; non-interest bearing	Unsecured; no impairment	2016	763,309	199,635		102,256	28,787	2017	-	-	-	-	7 years; interest bearing	Secured	2016	-	-	-	2,687,451	Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887									
	2017	-	-	-	-	180 days; non-interest bearing	Unsecured; no impairment																																																																																																																	
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	2016	-	-	-	-				2017	10,004	-	250,569	-	9 years; interest bearing	Unsecured; no impairment	2016	12,929	-	254,827	-	Associates of Entities Under Common Control	2017	649,404	12,264	226,318	4,784	30 days; non-interest bearing	Unsecured; no impairment	2016	763,309	199,635	102,256	28,787		2017	-	-	-	-	7 years; interest bearing	Secured	2016	-	-	-	2,687,451	Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																															
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	2016	12,929	-	254,827	-			Associates of Entities Under Common Control	2017	649,404	12,264	226,318	4,784	30 days; non-interest bearing	Unsecured; no impairment	2016	763,309	199,635	102,256	28,787		2017	-	-	-	-	7 years; interest bearing	Secured	2016	-	-	-	2,687,451	Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																																												
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	2016	763,309	199,635	102,256	28,787				2017	-	-	-	-	7 years; interest bearing	Secured	2016	-	-	-	2,687,451	Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																																																									
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	2016	-	-	-	2,687,451			Others	2017	28,248	567	48,688	607	On demand or 30 days; non-interest bearing	Unsecured; no impairment	2016	84,493	-	37,065	-	Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																																																																						
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	2016	84,493	-	37,065	-			Total	2017	P3,154,172	P1,449,103	P2,885,551	P313,025			Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																																																																																			
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Total	2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887																																																																																																																			

- Amounts owed by related parties consist of trade and other receivables and security deposits.
- Amounts owed by an associate consists of management fees and interest bearing loans, granted to Angat Hydropower Corporation and Olongapo Electricity Distribution Company Inc., included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position.
- Amounts owed to related parties consist of trade and non-trade payables pertaining to management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.
- The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of "Long-term debt" account in the consolidated statements of financial position.

6. Property, Plant and Equipment

Property, plant and equipment consists of:

September 30, 2017 and December 31, 2016

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2016 (Audited)	P226,788,832	P2,996,339	P1,316,545	P5,841,443	P52,426,658	P289,369,817
Additions	10,654,500	1,054,299	730,036	31,311	2,391,987	14,862,133
Disposals/reclassifications	(12,469,072)	(332,055)	(978,469)	(5,831,097)	(1,126,468)	(20,737,161)
Transfers to Assets held for sale	-	-	-	-	(184,324)	(184,324)
December 31, 2016 (Audited)	224,974,260	3,718,583	1,068,112	41,657	53,507,853	283,310,465
Additions	1,231,514	234,565	78,147	-	5,956,237	7,500,463
Reclassifications	15,651,214	-	-	-	(14,736,141)	915,073
September 30, 2017 (Unaudited)	241,856,988	3,953,148	1,146,259	41,657	44,727,949	291,726,001
Accumulated Depreciation and Amortization						
January 1, 2016 (Audited)	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	5,826,594	51,000	141,779	229,897	-	6,249,270
Disposals/reclassifications	(2,221,036)	(99,617)	(231,534)	(791,466)	-	(3,343,653)
December 31, 2016 (Audited)	36,566,871	42,462	206,885	6,220	-	36,822,438
Additions	4,185,935	29,201	73,585	3,662	-	4,292,383
September 30, 2017 (Unaudited)	40,752,806	71,663	280,470	9,882	-	41,114,821
Carrying Amount						
December 31, 2016 (Audited)	P188,407,389	P3,676,121	P861,227	P35,437	P53,507,853	P246,488,027
September 30, 2017 (Unaudited)	P201,104,182	P3,881,485	P865,789	P31,775	P44,727,949	P250,611,180

September 30, 2016

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2016 (Audited)	P226,788,832	P2,996,339	P1,316,545	P5,841,443	P52,426,658	P289,369,817
Additions	-	1,121	73,814	-	12,387,517	12,462,452
Disposals	-	-	(27,243)	-	-	(27,243)
Reclassifications	(12,469,073)	(332,054)	(951,226)	(5,831,097)	(1,968,729)	(21,552,179)
September 30, 2016 (Unaudited)	214,319,759	2,665,406	411,890	10,346	62,845,446	280,252,847
Accumulated Depreciation and Amortization						
January 1, 2016 (Audited)	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	4,522,987	43,956	119,802	228,725	-	4,915,470
Disposals	-	-	(3,683)	-	-	(3,683)
Reclassifications	(2,221,036)	(99,616)	(227,851)	(791,465)	-	(3,339,968)
September 30, 2016 (Unaudited)	35,263,264	35,419	184,908	5,049	-	35,488,640
Carrying Amount						
September 30, 2016 (Unaudited)	P179,056,495	P2,629,987	P226,982	P5,297	P62,845,446	P244,764,207

Depreciation and amortization recognized in profit or loss are as follows:

	September 30	
	2017	2016
Cost of power sold	P4,185,935	P4,834,247
Selling and administrative expenses	106,448	81,223
	P4,292,383	P4,915,470

7. 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 Contracted Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
San Miguel Energy Corporation (SMEC)	Sual Coal-Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
Strategic Power Devt. Corp. (SPDC)	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
South Premiere Power Corp. (SPPC)	Ilijan Natural Gas-Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of 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 contracted 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 to 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 P17,695,888 and P15,003,876 for the periods ended September 30, 2017 and 2016, respectively. SMEC and SPDC renewed their performance bonds in United States dollar (US\$) amounting to US\$58,187 and US\$20,305 which will expire on November 3, 2017 and January 25, 2018, respectively. Subsequently, the performance bond of SMEC was renewed up to November 3, 2018.

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 the subject of an ongoing case before the courts.

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 comprehensive income. Interest expense amounted to P6,864,574 and P7,293,269 for the periods ended September 30, 2017 and 2016, respectively.

The future minimum lease payments for each of the following periods are as follows:

September 30, 2017	US Dollar	Peso		Total
		Equivalent of US Dollar	Peso	
Not later than 1 year	US\$255,060	P12,960,855	P12,214,516	P25,175,371
More than 1 year and not later than 5 years	1,127,313	57,284,424	53,991,824	111,276,248
Later than 5 years	618,765	31,442,520	29,672,993	61,115,513
	2,001,138	101,687,799	95,879,333	197,567,132
Less: Future finance charges on finance lease liabilities	259,911	13,207,377	23,997,291	37,204,668
Present values of finance lease liabilities	US\$1,741,227	P88,480,422	P71,882,042	P160,362,464

December 31, 2016	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$252,950	P12,576,692	P12,112,310	P24,689,002
More than 1 year and not later than 5 years	1,117,374	55,555,827	53,512,338	109,068,165
Later than 5 years	820,263	40,783,474	39,326,292	80,109,766
	2,190,587	108,915,993	104,950,940	213,866,933
Less: Future finance charges on finance lease liabilities	310,216	15,423,939	28,353,458	43,777,397
Present values of finance lease liabilities	US\$1,880,371	P93,492,054	P76,597,482	P170,089,536

The present values of minimum lease payments for each of the following periods are as follows:

September 30, 2017	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$188,221	P9,564,442	P6,467,737	P16,032,179
More than 1 year and not later than 5 years	757,125	38,473,296	23,553,355	62,026,651
Later than 5 years	795,881	40,442,684	41,860,950	82,303,634
	US\$1,741,227	P88,480,422	P71,882,042	P160,362,464

December 31, 2016	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$191,961	P9,544,293	P6,799,953	P16,344,246
More than 1 year and not later than 5 years	770,562	38,312,364	24,671,265	62,983,629
Later than 5 years	917,848	45,635,397	45,126,264	90,761,661
	US\$1,880,371	P93,492,054	P76,597,482	P170,089,536

8. Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period, net of distributions on undated subordinated capital security (USCS), by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	September 30	
	2017	2016
Net income attributable to equity holders of the Parent Company	P5,719,192	P5,736,046
Distributions to USCS holders for the period	(2,306,007)	(2,182,163)
Net income attributable to common shareholders of the Parent Company (a)	3,413,185	3,553,883
Weighted average number of common shares outstanding (in thousands) (b)	1,250,004	1,250,004
Basic/Diluted EPS (a/b)	P2.73	P2.84

As of September 30, 2017 and 2016, the Group has no dilutive debt or equity instruments.

9. Dividends and Distributions

Cash Dividends

There were no cash dividend declarations during the period ended September 30, 2017.

The Board of Directors (BOD) of SMC Global Power declared and paid cash dividends during the period ended September 30, 2016 as follows:

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

Distributions to USCS Holders

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:

	September 30	
	2017	2016
February	P720,611	P689,223
May	799,583	756,804
August	729,868	681,412
	P2,250,062	P2,127,439

On August 8, 2017, the BOD of SMC Global Power approved the payment of distribution in the total amount of US\$11,250, plus applicable taxes, on November 7, 2017 to the holders of the US\$300,000 USCS issued in May 2014.

10. 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, loans payable, long-term debt and derivative instruments. These financial instruments, except for 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, noncurrent 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 such as commodity and currency forwards and swap 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 Parent Company's 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 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 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 financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; 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 Committee shall also prepare the reports required to be included in the annual report of the Group.

The Audit 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. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The accounting policies in relation to derivatives are set out in Note 11 to the selected notes to the consolidated financial statements.

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.

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 P276 and P14,127 for the period ended September 30, 2017 and for the year ended December 31, 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.

The Group does not account for any fixed-rate financial assets or financial liabilities at FVPL and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

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:

September 30, 2017	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P862,500	P1,200,000	P1,410,000	P8,403,250	P2,512,500	P57,611,750	P72,000,000
Interest rate	6.2836%	6.2836%	6.2836%	4.3458%	6.2836%	4.7575%	
	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	to 6.9265%	
	P862,500	P1,200,000	P1,410,000	P8,403,250	P2,512,500	P57,611,750	P72,000,000
December 31, 2016							
Fixed Rate							
Philippine peso-denominated	P -	P -	P -	P -	P6,153,250	P8,846,750	P15,000,000
Interest rate					4.3458%	4.7575%	
						- 5.1792%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	1,218,482	36,392,314	1,681,219	1,768,764	1,892,042	9,717,483	52,670,304
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P1,218,482	P36,392,314	P1,681,219	P1,768,764	P8,045,292	P18,564,233	P67,670,304

Foreign Currency Risk

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 a combination of nonderivative and derivative instruments such as foreign currency forwards to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) are entered into to manage foreign currency risks arising from foreign currency-denominated obligations.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents are as follows:

	September 30, 2017		December 31, 2016	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$74,973	P3,809,748	US\$108,229	P5,381,123
Trade and other receivables	113,553	5,770,219	80,301	3,992,573
	188,526	9,579,967	188,530	9,373,696
Liabilities				
Loans payable	176,000	8,943,440	-	-
Accounts payable and accrued expenses	261,693	13,297,950	312,823	15,553,551
Long-term debt (including current maturities)	-	-	1,059,339	52,670,304
Finance lease liabilities (including current portion)	1,741,227	88,480,422	1,880,371	93,492,054
	2,178,920	110,721,812	3,252,533	161,715,909
Net foreign currency-denominated monetary liabilities	US\$1,990,394	P101,141,845	US\$3,064,003	P152,342,213

The Group reported net losses on foreign exchange amounting to P2,775,356 and P4,791,856 for the periods ended September 30, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
September 30, 2017	50.82
December 31, 2016	49.72
September 30, 2016	48.50
December 31, 2015	47.06

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):

	September 30, 2017		December 31, 2016	
	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	(P74,973)	P74,973	(P108,229)	P108,229
Trade and other receivables	(113,553)	113,553	(80,301)	80,301
	(188,526)	188,526	(188,530)	188,530
Loans payable	176,000	(176,000)	-	-
Accounts payable and accrued expenses	261,693	(261,693)	312,823	(312,823)
Long-term debt (including current maturities)	-	-	1,059,339	(1,059,339)
Finance lease liabilities (including current portion)	1,741,227	(1,741,227)	1,880,371	(1,880,371)
	2,178,920	(2,178,920)	3,252,533	(3,252,533)
	P1,990,394	(P1,990,394)	P3,064,003	(P3,064,003)

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, 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 materials 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 material cost.

Commodity Swaps. Commodity swaps are used to manage the Group's exposures to volatility in prices of coal.

Commodity Forwards. The Group enters into forward purchases of coal. The prices of the commodity forwards are fixed either through direct agreement with coal suppliers or by reference to a relevant commodity price index.

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.

September 30, 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	P31,257,793	P31,257,793	P31,257,793	P -	P -	P -
Trade and other receivables - net	22,319,108	22,319,108	22,319,108	-	-	-
Derivative assets (included under "Other noncurrent assets - net" account)	31,248	31,248	-	31,248	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	242,945	277,723	38,634	45,405	116,696	76,988
Restricted cash (included under "Other noncurrent assets - net" account)	4,912,468	4,912,468	4,912,468	-	-	-
Financial Liabilities						
Loans payable	19,873,440	19,900,101	19,900,101	-	-	-
Accounts payable and accrued expenses*	31,004,248	31,004,248	31,004,248	-	-	-
Derivative liabilities (included under "Other noncurrent liabilities" account)	10,389	10,389	10,389	-	-	-
Long-term debt - net (including current maturities)	71,115,279	106,548,187	5,338,444	5,603,001	24,600,043	71,006,699
Finance lease liabilities (including current portion)	160,362,464	197,567,132	25,175,371	26,154,138	85,122,110	61,115,513
Other noncurrent liabilities	163,812	243,392	8,400	8,400	25,200	201,392

*Excluding statutory receivables and payables

December 31, 2016	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	P21,491,385	P21,491,385	P21,491,385	P -	P -	P -
Trade and other receivables - net	22,342,743	22,342,743	22,342,743	-	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	272,019	315,066	-	77,195	116,640	121,231
Financial Liabilities						
Accounts payable and accrued expenses*	31,095,490	31,095,490	31,095,490	-	-	-
Long-term debt - net (including current maturities)	66,323,726	77,424,824	3,618,010	38,428,920	15,077,705	20,300,189
Finance lease liabilities (including current portion)	170,089,536	213,866,933	24,689,002	24,966,835	84,101,330	80,109,766
Other noncurrent liabilities	154,105	238,086	8,400	8,400	25,200	196,086

*Excluding statutory receivables and payables

Credit Risk

Credit risk is the risk of financial loss to the Group if 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 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 incurred 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 collaterals and other risk mitigation techniques, is presented below:

	September 30, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	P31,256,322	P21,490,065
Trade and other receivables - net*	22,319,108	22,342,743
Derivative assets (included under "Other noncurrent assets - net" account)	31,248	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	242,945	272,019
Restricted cash (included under "Other noncurrent assets - net" account)	4,912,468	-
	P58,762,091	P44,104,827

*Excluding statutory receivables

The credit risk for cash and cash equivalents, derivative assets and restricted cash are 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 56%, and 53% of the Group's total revenues for the periods ended September 30, 2017 and 2016, respectively. The Group does not execute any credit guarantee in favor of any counterparty.

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 and USCS.

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated. Other components of equity such as equity reserves and reserve for retirement plan are excluded from capital for purpose of capital management.

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.

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.

There were no changes in the Group's approach to capital management during the period.

11. Financial Assets and Financial Liabilities

Date of Recognition. 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. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

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

Financial Assets

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 AFS financial assets and HTM investments as of September 30, 2017 and December 31, 2016.

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), 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 comprehensive income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of comprehensive 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 comprehensive income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of comprehensive income when the right to receive payment has been established.

The Group's derivative assets are classified under this category.

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 comprehensive 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 comprehensive income. Gains or losses are recognized in the consolidated statements of comprehensive 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.

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 and, where allowed and appropriate, re-evaluates such designation at every reporting date. 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 profit or loss. 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 comprehensive income.

The Group's derivative liabilities 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 consolidated statements of comprehensive income. Gains and losses are recognized in the consolidated statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, finance lease liabilities, long-term debt 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.

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 comprehensive income.

Impairment of Financial Assets

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 comprehensive 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 comprehensive income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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.

Debt Issue Costs

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.

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P31,257,793	P31,257,793	P21,491,385	P21,491,385
Trade and other receivables - net*	22,319,108	22,319,108	22,342,743	22,342,743
Derivative assets (included under "Other noncurrent assets - net" account)	31,248	31,248	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	242,945	242,945	272,019	272,019
Restricted cash (included under "Other noncurrent assets - net" account)	4,912,468	4,912,468	-	-
	P58,763,562	P58,763,562	P44,106,147	P44,106,147
Financial Liabilities				
Loans Payable	P19,873,440	P19,873,440	P -	P -
Accounts payable and accrued expenses*	31,004,248	31,004,248	31,095,490	31,095,490
Derivative liabilities (included under "Other noncurrent liabilities" account)	10,389	10,389	-	-
Long-term debt - net (including current maturities)	71,115,279	79,889,399	66,323,726	66,611,049
Finance lease liabilities (including current portion)	160,362,464	160,362,464	170,089,536	170,089,536
Other noncurrent liabilities	163,812	170,863	154,105	165,159
	P282,529,632	P291,310,803	P267,662,857	P267,961,234

*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) and Other Noncurrent Assets - net. The carrying amounts of cash and cash equivalents and trade and other receivables approximate their fair values primarily due to the relatively short-term nature/maturities of these financial instruments. In the case of noncurrent receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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.

Loans Payable, Accounts Payable and Accrued Expenses (excluding statutory payables) and Other Noncurrent Liabilities. The carrying amounts of loans payable and accounts payable and accrued expenses approximate their fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Finance Lease 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 2.03% to 4.71% and 2.18% to 4.88% as of September 30, 2017 and December 31, 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedging

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments are discussed below.

In 2017, the Group entered into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards and swaps.

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

- a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- c. hedges of a net investment in foreign operations.

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 documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of comprehensive /income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of comprehensive income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

- a. the hedging instrument expires, is sold, is terminated or is exercised;
- b. the hedge no longer meets the criteria for hedge accounting; or
- c. the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of September 30, 2017 and December 31, 2016.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated statements of comprehensive income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of comprehensive income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of comprehensive income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of comprehensive income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of September 30, 2017 and December 31, 2016.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of comprehensive income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of comprehensive income.

The Group has no hedge of a net investment in a foreign operation as of September 30, 2017 and December 31, 2016.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of comprehensive 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.

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 not bifurcated any embedded derivatives as of September 30, 2017 and December 31, 2016.

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 comprehensive income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of currency and commodity derivatives entered into by the Group.

Currency Forwards

The Group has outstanding foreign currency forward contracts with an aggregate notional amount of US\$19,420 as of September 30, 2017 and with various maturities in 2017. The negative fair value of these currency forwards amounted to P10,389 as of September 30, 2017.

Commodity Swap

The Group has an outstanding fixed swap agreement covering its purchase of coal for 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 equivalent notional quantity covered by the commodity swap is 60,000 metric tons as of September 30, 2017. The positive fair value of these swap amounted to P31,248 as of September 30, 2017.

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 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.

12. Events After the Reporting Date

- a. In October 2017, SMC Global Power availed of several short-term peso loans totaling to P15,000,000 from local banks, with interest rates ranging from 3.0% to 3.5%. Proceeds of the short-term loans were used for general corporate purposes.
- b. On November 7, 2017, the BOD of SMC Global Power approved the payment of distribution in the total amount of US\$10,125, plus applicable taxes, on February 26, 2018 to the holders of the US\$300,000 USCS issued in August 2015.

13. Other Matters

- a. There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in the contingent liabilities and contingent assets since the last annual reporting date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. The effects of seasonality or cyclicalities on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of September 30, 2017. These consist of construction of power plants and acquisition of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash and long-term loans.



SMC GLOBAL POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended September 30, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2017, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2017 SIGNIFICANT TRANSACTIONS

LONG-TERM DEBT

▪ Settlement and Availment of Long-term Debt and Short-term Loan

- Payment of the US\$700 Million Five-Year Term Loan by SMC Global Power

On March 31, 2017, SMC Global Power paid US\$200 million (P10,043 million) out of the US\$700 million, five-year term loan drawn in 2013 and 2015. The United States (US) dollar loan was secured to refinance existing indebtedness and to fund the ongoing construction of power plants in Limay, Bataan and Malita, Davao (Limay and Davao Greenfield Power Plants), investments in power-related assets, and for general corporate purposes.

The US\$200 million payment was funded by another US\$200 million (P10,040 million) short-term bridge financing loan availed on March 30, 2017 solely for this purpose. The refinancing lowered the interest margin from 1.9% to 1.0%. This short-term bridge financing loan was subsequently paid in September 2017 for a total of P10,196 million.

On April 26, 2017, SMC Global Power paid an additional US\$300 million (P14,912 million) out of the US\$700 million term loan, with the proceeds of a P15,000 million fixed-rate, seven-year term loan, availed in April 2017.

On August 31, 2017, the remaining US\$200 million balance of the US\$700 million term loan was paid.

The US\$700 million loan of SMC Global Power was partially settled with a Peso-denominated loan to minimize the Group's exposure to foreign exchange losses brought by the continuing Peso depreciation against the US dollar.

- *Availment of P42,000 Million Term Loan by SMC Consolidated Power Corporation (SCPC)*

On June 22, 2017, SCPC entered into a twelve-year term loan facility amounting to P44,000 million from which P42,000 million has been drawn on June 28, 2017 for the following purposes:

- the settlement of a US\$360 million (P18,090 million) short-term bridge financing loan that was availed on May 8, 2017 for the full prepayment of a US\$359 million (P17,940 million) loan on May 9, 2017. The US\$359 million loan was drawn in 2016 from its US\$400 million seven-year term loan facility primarily secured to finance the ongoing construction of the power plant in Limay, Bataan;
- the acquisition of a 300 megawatts (MW) power plant project in Limay, Bataan, for P21,280 million, from Limay Premiere Power Corp. (LPPC), also a wholly-owned subsidiary of SMC Global Power; and
- the repayment of shareholder advances.

The remaining undrawn amount is intended to repay shareholder advances and fund the ongoing construction of the 300MW power plant project in Limay, Bataan, that was purchased from LPPC.

- *Availment of Short-term Loans by SMC Global Power*

On August 30, 2017 and September 25, 2017, SMC Global Power obtained short-term loans amounting to US\$200 million and P5,000 million, respectively, from local banks. Proceeds from these short-term loans were used for general corporate purposes.

SHAREHOLDER ADVANCES TO A JOINT VENTURE

- *PowerOne Ventures Energy Inc. (PVEI)*

In January 2017, PVEI and Korea Water Resources Corporation (K-Water) granted shareholder advances amounting to US\$31.8 million and US\$21.2 million, respectively, to their joint venture company, Angat Hydropower Corporation (AHC). The purpose of the advances is to fund the shortfall of the loan commitments of AHC as defined under its existing Base Loan Facility Agreement. The advances bear an annual interest rate of 4.5% and are due on April 30, 2017. The due date may be extended as agreed amongst the parties.

On April 10, 2017, AHC made a partial payment of the foregoing advances totaling US\$7.0 million, of which US\$4.2 million and US\$2.8 million were paid to PVEI and K-Water, respectively. The payment date for the remaining balance of the advances amounting to US\$46.0 million was extended further until December 29, 2017.

II. FINANCIAL PERFORMANCE

2017 vs. 2016

Revenues

The Group's offtake volume for the period ended September 30, 2017 was 12,818 gigawatt hours (GWh), 5% lower compared to same period last year due to lower bilateral volumes from Ilijan and Sual Power Plants caused by: (i) the scheduled maintenance shutdown of Ilijan Power Plant concurrently with the Malampaya gas facility from January 28 to February 16, 2017; (ii) Sual Unit 2 shutdown due to transformer failure starting last June 14, 2017; (iii) Ilijan Block 2 shutdown from April 9 to 17, 2017 after a series of earthquakes in Batangas; (iv) lower offtake volume of Unit 1 due to the decline in Manila Electric Company (Meralco) nominations; and (v) the sale of Limay Cogeneration Power Plant of SMC Powergen Inc. (SPI) in December 2016. Nevertheless, the start of the commercial operations of both Units 1 of the Limay and Davao Greenfield Power Plants and the improvement in San Roque plant's power dispatch, due to better hydrological conditions, partially covered up the power requirements needed.

Revenues still ended 2% higher than last year to P62,117 million brought about by higher average realization prices for Ilijan and Sual bilateral offtake volumes, on account of higher pass-through fuel charges, and additional retail electricity supply (RES) customers contracted in 2017 for San Miguel Electric Corp. and SCPC.

Cost of Power Sold

Cost of power sold increased by 14%, to P38,993 million for the first nine months of 2017 from P34,160 million for the same period of 2016. The increase was mainly attributable to the following: (i) higher cost of coal for the Sual Power Plant, (ii) higher energy fees incurred by the Ilijan Power Plant due to utilization of diesel resulting from the Malampaya gas facility shutdown, and (iii) higher power distribution costs incurred by the RES-licensed Companies due to additional customers. The increase was mitigated by the drop in cost of sales of SPI by P2,736 million following the sale of its Limay Cogeneration Power Plant.

Operating Expenses

Operating expenses declined by 7% to P3,456 million for the first nine months of 2017 from P3,701 million in 2016. The decrease was mainly on account of lower operating expenses incurred by SPI in 2017 by P593 million.

Operating Income

As a result, September 2017 year-to-date consolidated income from operations registered at P19,668 million, dipped by 14% from last year's P22,838 million.

Other Income (Charges)

Net foreign exchange losses of P2,775 million, recognized mainly from the settlement and revaluation of US\$-denominated liabilities, was lower by 42% than the P4,792 million losses in 2016 due to lower depreciation of the Philippine peso against the US dollar for the first nine months of 2017 compared to the same period in 2016.

Other income from PSALM monthly fees reduction increased by P1,585 million as a result of the extended shutdown of Sual Unit 2.

Interest expense and other financing charges increased by 11% or P1,033 million due to the outright expense recognition of the unamortized debt issue costs of the pre-terminated long-term debts of SMC Global Power and SCPC amounting to US\$700 million and US\$359 million, respectively.

Income Tax Expense

Income tax expense is lower by 3% compared to last year's P3,469 million to P3,382 million this year, as a net result of: (i) lower operating income of the Group which consequently reduced the current income tax by P712 million, largely on account of the sale of SPI's power plant, and (ii) higher deferred income tax expense by P602 million recognized mainly from the temporary difference between the actual monthly fixed payments of the Independent Power Producer Administrator (IPPA) entities to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease liability-related expenses.

Net Income

Consequently, the consolidated net income of the Group posted this year slightly decreased from P5,736 million in 2016 to P5,719 million in 2017.

2016 vs. 2015

Revenues

The Group's offtake volume as of the end of the third quarter of 2016 was 13,531 GWh, 10% higher than 2015, mainly driven by all IPPA Power Plants delivering higher bilateral volumes with Sual and Ilijan Power Plants leading the growth. The Ilijan Power Plant experienced maintenance outage and natural gas restrictions, limiting its generation capacity in 2015. This resulted to consolidated net revenues of P60,700 million posted in 2016, 3% better than the P58,997 million of the previous year, which was moderated by lower average realization prices for both bilateral and Philippine Wholesale Electricity Spot Market (WESM) volumes.

Cost of Power Sold

Cost of power sold declined by 6% to P34,160 million for the first three quarters of 2016 from P36,303 million in 2015 same period. The decrease was mainly attributable to lower cost of coal for the Sual and Limay Cogeneration Power Plants and lower natural gas price for the Ilijan Power Plant.

Operating Expenses

Operating expenses grew by 10% from P3,351 million for the first nine months of 2015 to P3,701 million for the same period in 2016. This is mainly due to: (i) higher business taxes of P230 million largely relating to the IPPA Power Plants and (ii) higher repairs and maintenance by P85 million for the Limay Cogeneration Power Plant.

Operating Income

Consolidated income from operations reached P22,838 million, 18% higher than the previous year, on account of improved bilateral offtake volume and better margin brought by lower generation costs.

Other Income (Charges)

Interest income declined from P349 million in 2015 to P116 million in 2016 due to lower average cash balance as a result of higher capital expenditures in 2016 for the Group's power plant projects and the collection of interest amounting to P106 million from past due non-trade receivables of San Miguel Energy Corporation in 2015, nil in 2016.

Equity in net losses decreased from P565 million in 2015 to P155 million in 2016, primarily because of the lower net losses posted by Angat Hydropower Corp.

Net foreign exchange losses of P4,792 million, recognized mainly from the settlement and revaluation of US\$-denominated liabilities, was lower by 25% than the P6,428 million losses in 2015 due to lower depreciation of the Philippine peso against the US dollar for the first nine months of 2016 compared to the same period in 2015.

Income Tax Expense

Income tax expense grew by 70% from P2,045 million in 2015 to P3,469 million in 2016 as a result of the following: (i) improved operating income of the Group which consequently increased the current income tax by P524 million; and (ii) higher deferred income tax expense by P920 million recognized on the temporary difference between the actual monthly fixed payments to PSALM over the finance lease liability-related expenses of the IPPAs.

Net Income

Correspondingly, the consolidated net income of the Group for the nine-month period grew by 320%, from P1,365 million in 2015 to P5,736 million in 2016.

The following are the highlights of the performance of the individual operating business segments:

1. POWER GENERATION

2017 vs. 2016

a. San Miguel Energy Corporation (SMEC, IPPA of the Sual Power Plant)

Year-to-date net generation of 4,474 GWh, at 68% net capacity factor rate, was 17% lower than the same period last year due to higher outages resulting from transformer failure of Sual Unit 2 starting on June 14, 2017. Moreover, total offtake volume of Unit 1 decreased by 1% to 6,484 GWh compared to last year due to lower nominations from Meralco. SMEC sourced its replacement power from other generators to compensate for the low generation of Unit 2.

Net revenues of P30,630 million was 11% ahead of last year's P27,594 million due to increase in average selling prices resulting from higher pass-through fuel costs.

Meanwhile, operating income of P9,313 million was 21% lower compared to last year's P11,852 million on account of lower offtake volume and higher cost of replacement power supplied to bilateral customers.

b. South Premiere Power Corp. (SPPC, IPPA of the Ilijan Power Plant)

Due to the scheduled maintenance of Ilijan Power Plant as a result of the Malampaya gas facility shutdown from January 28 to February 16, 2017 and the series of earthquakes in Batangas from April 9 to 17, 2017, year-to-date net generation of 6,059 GWh was 3% lower while total offtake volume of 6,139 GWh dropped by 6% compared to last year.

Net revenues of P25,990 million managed to increase by 11% compared to last year's P23,347 million due to higher average selling prices primarily attributable to the pass-through diesel costs and upward adjustment on capacity fees.

However, operating income only increased by 3% to P7,240 million for the first nine months of 2017 from P7,018 million of 2016 same period as a result of lower bilateral offtake volume and higher operating expenses.

c. Strategic Power Devt. Corp. (SPDC, IPPA of the San Roque Power Plant)

Net generation for the period ended September 30, 2017 improved by 16% at 540 GWh compared to last year's 467 GWh due to better hydrological conditions. Total offtake volume, however, declined by 15% mainly on account of the expiration of the Power Supply Contract with Albay Power and Energy Corp. in December 2016.

Net revenues likewise decreased by 3% to P5,197 million which was moderated by the increase in average realization prices for both WESM and replacement power sales volumes.

Notwithstanding the decline in the offtake volume and net revenues, operating income for 2017 of P2,296 million still improved significantly by 45% from last year's P1,581 million primarily due to higher average realization prices and better revenues from the sale of contract capacity.

d. SMC Powergen Inc. (SPI, owner of the Limay Cogeneration Power Plant)

On December 23, 2016, SPI sold its 4 x 35MW Limay Cogeneration Power Plant located in Barangay Alangan, Limay, Bataan to Petron Corporation. As part of SMC Global Power's expansion program, future capital projects may be assigned to SPI by the management.

e. **SMC Consolidated Power Corporation (SCPC, owner of the Limay Greenfield Power Plant)**

The first two units of the 4 x 150MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant, located in Limay, Bataan (Limay Greenfield Power Plant) was successfully synchronized to the Luzon grid in November 2016 and May 2017, respectively. Unit 1 and Unit 2 started commercial operations in May 26, 2017 and September 26, 2017, respectively, following the completion of its testing and commission phase and the Energy Regulatory Commission (ERC) issuance of a Provisional Authority to Operate in favor of SCPC for the aforesaid Units.

For the first nine months of 2017, a total of 289 GWh was generated by the Limay Greenfield Power Plant while net revenues and operating income from its power generation activities amounted to P760 million and P38 million, respectively.

f. **San Miguel Consolidated Power Corporation (SMCPC, owner of the Davao Greenfield Power Plant)**

The first unit of the 2 x 150MW CFB Coal-fired Power Plant, located in Malita, Davao Occidental (Davao Greenfield Power Plant) was successfully synchronized to the Mindanao grid in May 2016. Subsequently, Unit 1 started commercial operations on July 26, 2017 following the completion of its testing and commissioning phase and the ERC issuance of a Provisional Authority to Operate in favor of SMCPC for Unit 1.

As of September 30, 2017, a total of 124 GWh was generated by the Davao Greenfield Power Plant while net revenues and operating income registered at P712 million and P220 million, respectively.

2016 vs. 2015

a. **SMEC**

Net generation of 5,361 GWh for 2016, at 81% net capacity factor rate, was 6% higher than the previous year as a result of lower hours of forced outages and emergency shutdowns for both Units 1 and 2 experienced in 2016 as compared to previous year. As a result, total offtake volume at 6,575 GWh was ahead by 14% with higher bilateral volumes sold in 2016.

Year-to-date September 2016 net revenues at P27,594 million was 8% higher than the previous year's P25,500 million. The increase is primarily attributable to the improvement in bilateral offtake volume, which was partly offset by the decline in average realization price due to lower pass-through fuel costs.

Operating income at P11,852 million was 5% higher than the previous year's P11,294 million primarily due to the increase in bilateral offtake volume.

b. **SPPC**

Due to the improved operation of the Ilijan Power Plant, which experienced scheduled and unscheduled maintenance outages for Blocks 1 and 2 in 2015, year-to-date net generation of 6,229 GWh was 17% higher than 2015 same period. Likewise, total offtake volume of 6,515 GWh registered in 2016 was also higher by 16% than in 2015.

Net revenues at P23,347 million in 2016 was slightly higher than the previous year due to the increase in bilateral and WESM volumes despite both having lower average realization prices as compared to prior year. Lower average natural gas price contributed to the favorable decline by 12% in cost of power sold. Consequently, operating income at P7,018 million was better by 50% than prior year's P4,688 million.

c. **SPDC**

Low water elevation in the dam reservoir caused San Roque's plant utilization to decline from 32% in 2015 to 21% in 2016. As a result, net generation declined by 37% to 467 GWh, majority of which was dispatched to WESM.

Year-to-date net revenues of P5,368 million declined by 13% on account of lower offtake volume and lower spot average selling price.

Power purchases increased by 23% to P2,262 million to serve its replacement power requirements. Resulting operating income at P1,581 million was 38% lower compared with 2015 same period.

2. **RETAIL AND OTHER POWER-RELATED SERVICES**

2017 vs. 2016

a. **San Miguel Electric Corp. (SMELC, Retail Electricity Supplier)**

SMELC realizes its profits from RES contracts with various SMC subsidiaries and other contestable customers. Power supply for its existing RES contracts was sourced from the Sual Power Plant.

Offtake volume of 816 GWh for the first nine months of 2017 is 157% higher compared to last year's 317 GWh. The increase was attributable to higher electricity requirements of existing customers and of the additional 27 contestable customers contracted in 2017. This led to a 168% increase in net revenues, which registered at P5,523 million in 2017.

Higher volume allowed SMELC to post an operating income of P27 million, an improvement from last year's P5 million.

b. Albay Power and Energy Corp. (APEC, Concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative, Inc.)

Net revenues of P2,001 million was 6% lower than last year's P2,125 million due to the drop in average realization price by P602/MWh, on account of lower pass-through generation costs, coupled with lower sales volume by 272 MWh.

Meanwhile, operating loss further ballooned from P65 million in 2016 to P142 million in 2017 same period as operating expenses grew by P59 million mainly due to additional impairment losses recognized.

c. SMC Consolidated Power Corporation - Retail Electricity Supplier (SCPC-RES)

On August 24, 2016, SCPC was granted a RES license by the ERC. RES customers include various SMC subsidiaries and other contestable customers. The power supply for its RES contracts was sourced from Limay, Sual and Ilijan Power Plants.

For the first nine months of 2017, total offtake volume registered at 165 GWh while net revenues and operating income from its retail of electricity amounted to P940 million and P230 million, respectively.

2016 vs. 2015

a. SMELC

The growth in net revenues by P1,139 million, or 124%, from previous year's P918 million is attributed to the sale generated from the additional 5 contestable customers contracted in the first nine months of 2016 and higher electricity requirements of existing RES customers which increased offtake volume by 243 GWh or 171%. Despite the increase in net revenues and offtake volume, operating income posted for the first nine months of 2016 of P5 million decreased from previous year's P9 million due to increase in salaries & wages and taxes & licenses in 2016.

b. APEC

Net revenues for the period ended September 30, 2016 reached P2,125 million, 19% higher than the previous year, due to improvements on APEC's billing and collection systems. Gross contribution of P132 million in 2016 likewise improved from the P29 million posted in 2015 due to lower average system loss reported in 2016.

Despite the improvement, APEC still posted an operating loss of P65 million, though lower compared to the P157 million loss in 2015.

III. FINANCIAL POSITION

2017 vs. 2016

The Group's consolidated total assets as of September 30, 2017 amounted to P353,276 million, higher by P19,327 million than December 31, 2016. The net movement is accounted for as follows:

- a. The increase in cash and cash equivalents by P9,766 million was mainly due to the proceeds from the short & long term loans availed by SCPC, SMC Global Power, and SMCPC (P106,146 million) less funds (i) used for the settlement of the Group's US\$-denominated term loans (P81,518 million), (ii) used to defray the additional costs for the greenfield power plants construction (P7,500 million) and related input VAT (P2,263 million) and (iii) transferred to restricted cash (P4,912 million) to cover debt servicing and capital expenditure requirements of SCPC.
- b. Inventories decreased by P445 million due to lower coal ending inventory for Sual, Limay and Davao Greenfield Power Plants as consumption more than offsets the purchases during the period.
- c. Assets held for sale dropped by P120 million due to sale of roller press and elevator units to a related party in July 2017.
- d. Deferred tax assets decreased by P671 million primarily due to SMEC's recognition of deferred income tax expense on the reduced temporary difference between the finance lease liability-related expenses over the actual monthly fixed payments to PSALM.
- e. Increase in other noncurrent assets by P7,261 million is mainly due to the input VAT recognized by SCPC on its acquisition of the 300MW power plant project (Phase II) from LPPC and its transfer of P4,912 million funds to restricted cash account to cover debt servicing and capital expenditure requirements.

The Group's consolidated total liabilities as of September 30, 2017 amounted to P295,136 million, P15,857 million higher than the December 31, 2016 balance of P279,279 million. The major items accounting for the net movement are as follows:

- a. SMC Global Power availed of a US\$200 million (P10,040 million) and a P5,000 million short-term loans from local banks in August and September 2017, respectively, for general corporate purposes. Meanwhile, SMCPC also obtained a P5,930 million short-term loan in June 2017 to defray its capital expenditures.
- b. The increase in income tax payable by P79 million mainly pertains to SMEC's additional income tax due for the third quarter of 2017.
- c. Long-term debt increased by P4,792 million primarily due to the net effect of the following: (i) availment of P42,000 million long-term debt by SCPC in June 2017, which was partly used to pay its US\$360 million bridge loan, (ii) prepayment of the US\$700 million long-term debt of SMC Global Power which was settled in part by a P15,000 million long-term debt availed in April 2017.

- d. Deferred tax liabilities increased by P1,065 million mainly due to the temporary difference arising from the actual monthly fixed payment to PSALM over the finance lease liability-related expenses for the period of SPPC and SPDC.

2016 vs. 2015

The Group's consolidated total assets as of September 30, 2016 amounted to P342,619 million, P11,409 million higher than December 31, 2015. The increase is accounted for as follows:

- a. Cash and cash equivalents decreased by P3,666 million mainly due to the payments: (i) to contractors/suppliers for the ongoing construction of the greenfield power plants, (ii) to PSALM for the monthly fixed fees, and (iii) of dividends to common shareholders and distribution to undated subordinated capital security (USCS) holders; offset by the net proceeds of the US\$357 million (P16,787 million) drawn from the US\$400 million seven-year term loan facility of SCPC.
- b. Net increase in trade and other receivables by P1,559 million is attributed to higher net bilateral sales of SMEC, SPPC, SPDC and SPI for the month of September 2016 versus December 2015 by P2,186 million.
- c. Inventories dropped by P196 million on account of lower coal ending inventory levels for Sual Power Plant as of September 30, 2016 as compared to December 31, 2015. This is attributable to the extended maintenance outage of Sual Unit 2 lasting more than 90 days from mid-September to December 19, 2015, which reduced Sual Power Plant's coal usage and resulted to higher inventory balance as of December 31, 2015.
- d. Increase in investments and advances by P5,646 million is due to the net effect of the following: (i) additional equity infused to AHC by PVEI amounting to P5,545 million and in Mariveles Power Generation Corporation by SMC Global Power amounting to P965 million, and (ii) return of deposits made for future investments in a land holding company amounting to P960 million (net of additional deposits made).
- e. Deferred tax assets decreased by P379 million primarily due to SMEC's recognition of deferred income tax expense on the reduced temporary difference between the finance lease liability-related expenses over the actual monthly fixed payments to PSALM.
- f. The increase in other noncurrent assets by P676 million is mainly attributable to the increase in SPI's restricted cash (required under SPI's existing loan covenants) due to higher collection of receivables resulting from the upward adjustment in the capacity recovery fee charged to customer in 2016.

The Group's consolidated total liabilities as of September 30, 2016 amounted to P285,575 million, P10,800 million higher than the December 31, 2015 balance of P274,775 million. Main factors contributing to the increase are as follows:

- a. Increase in long-term debt by P17,107 million is attributable to the following: (i) US\$357 million (P16,787 million) drawn by SCPC from its US\$400 million, seven-year term loan, to finance the construction of the Limay Greenfield Power Plant (Phase I), and (ii) P15,000 million Bonds issued and listed in the Philippine Dealing & Exchange Corp. in July 2016. Net proceeds of the Bonds were used to refinance the US\$300 million short-term bridge financing loan, which matured in July 2016.

- b. Increase in income tax payable by P232 million due to improved operating income resulting from higher bilateral offtake volume of SMEC.
- c. Deferred tax liabilities increased by P756 million on account of the recognition by SPPC and SPDC of deferred income tax expense on the temporary differences between the actual monthly fixed payments to PSALM over the finance lease liability-related expenses for 2016.
- d. Increase in noncurrent liabilities by P61 million primarily relates to the accrual of expected retirement benefits of active employees.

Equity

The increase in equity is due to:

<i>(in Millions)</i>	September 30	
	2017	2016
Net income for the period	P5,719	P5,736
Distributions paid to USCS holders	(2,250)	(2,127)
Cash dividends declared	-	(3,000)
	P3,469	P609

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(in Millions)</i>	September 30	
	2017	2016
Net cash flows provided by operating activities	P21,989	P21,904
Net cash flows used in investing activities	(15,162)	(19,145)
Net cash flows provided by (used in) financing activities	2,828	(6,588)

The effect of exchange rate changes on cash and cash equivalents amounted to P111 million, and P163 million on September 30, 2017 and 2016, respectively.

Net cash flows provided by operating activities for the period basically consists of income for the period and certain changes in current assets and current liabilities and others.

Net cash flows used in investing activities included the following:

<i>(in Millions)</i>	September 30	
	2017	2016
Net additions to investments and advances	(P328)	(P5,801)
Additions to property, plant and equipment	(7,501)	(12,462)
Proceeds from disposal of property, plant and equipment	-	25
Additions to deferred exploration and development costs	(3)	(2)
Additions to intangible assets	(90)	(229)
Additions to other noncurrent assets	(7,240)	(676)

Net cash flows provided by (used in) financing activities included the following:

<i>(in Millions)</i>	September 30	
	2017	2016
Proceeds from short-term borrowings	P86,559	P14,364
Proceeds from long-term borrowings	57,000	30,787
Distributions to USCS holders	(2,250)	(2,127)
Payments of finance lease liabilities	(18,592)	(17,787)
Payments of long-term borrowings	(53,110)	(14,461)
Payments of short-term borrowings	(66,779)	(14,364)
Payments of cash dividends	-	(3,000)

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

LIQUIDITY RATIO

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

<i>(in Millions P)</i>	<i>Conventional</i>		<i>Adjusted⁽¹⁾</i>	
	September 2017	December 2016	September 2017	December 2016
(A) Current Assets	72,299	63,974	72,299	63,974
(B) Current Liabilities	74,400	55,242	58,368	38,898
Current Ratio (A) / (B)	0.97	1.16	1.24	1.64

- (1) Current portion of finance lease liabilities, in relation to the IPPA Agreements with PSALM, is excluded from the total current liabilities as these current obligations on finance lease are pass-through charges billable to customers. As of September 30, 2017 and December 31, 2016, current portion of finance lease liabilities amounted to P16,032 million and P16,344 million, respectively.

SOLVENCY RATIO

$$\text{Net Debt-to-Equity Ratio} = \frac{\text{Net Debt}}{\text{Total Equity}}$$

<i>(in Millions P)</i>	September 2017	December 2016
(A) Net Debt⁽²⁾	182,819	198,847
(B) Total Equity⁽³⁾	60,763	56,898
Net Debt-to-Equity Ratio (A) / (B)	3.01	3.49

(2) Consolidated net total debt plus total PSALM lease liabilities.

(3) Consolidated total equity (excluding amounts attributable to ring-fenced subsidiaries as defined in the relevant credit facility agreement of the Parent Company).

$$\text{Asset-to-Equity Ratio} = \frac{\text{Total Assets}}{\text{Total Equity}}$$

<i>(in Millions P)</i>	<i>Conventional</i>		<i>Adjusted⁽⁴⁾</i>	
	September 2017	December 2016	September 2017	December 2016
(A) Total Assets	353,276	333,949	179,406	156,189
(B) Total Equity	58,140	54,671	58,140	54,671
Asset-to-Equity Ratio (A) / (B)	6.08	6.11	3.09	2.86

(4) Net carrying amount value of the IPPA power plants, in relation to the IPPA Agreements with PSALM, were omitted in total assets as these power plant assets were only capitalized with corresponding finance lease liabilities. As of September 30, 2017 and December 31, 2016, net carrying amount of IPPA power plant assets amounted to P173,870 million and P177,760 million, respectively.

PROFITABILITY RATIO

$$\text{Return on Average Equity} = \frac{\text{Net Income}}{\text{Total Equity}}$$

<i>(in Millions P)</i>	September 2017	December 2016
(A) Net Income⁽⁵⁾	4,134	4,151
(B) Total Equity	58,140	54,671
Return on Equity (A) / (B)	7.1%	7.6%

(5) Annualized for quarterly reporting.

$$\text{Interest Rate Coverage Ratio} = \frac{\text{Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)}}{\text{Finance Cost}}$$

<i>(in Millions P)</i>	September 2017	December 2016
(A) EBITDA⁽⁶⁾	31,742	34,349
(B) Finance Cost⁽⁷⁾	11,503	11,877
Interest Rate Coverage Ratio (A) / (B)	2.76	2.89

(6) Most recent four quarterly period consolidated EBITDA (gross of PSALM Payments and excluding amounts attributable to ring-fenced subsidiaries).

(7) Most recent four quarterly period consolidated interest expense (excluding amounts attributable to ring-fenced subsidiaries).

OTHER RELEVANT RATIO

$$\text{Leverage Ratio} = \frac{\text{Consolidated Net Debt}}{\text{Consolidated EBITDA}}$$

<i>(in Millions P)</i>	<i>Per Financial Covenant</i>	
	September 2017	December 2016
(A) Consolidated Net Debt⁽⁸⁾	22,457	28,757
(B) Consolidated EBITDA⁽⁹⁾	7,062	10,475
Leverage Ratio⁽¹⁰⁾ (A) / (B)	3.18	2.75

- (8) Net debt represents the sum of loans payable, long-term debt - net of current maturities and debt issue costs and current maturities of long-term debt - net of debt issue costs less cash and cash equivalents and excluding PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries.
- (9) Calculated as (a) net income (excluding items between any or all of the Parent 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 based on the most recent four quarterly periods. EBITDA should not be viewed in isolation or as an alternative to financial measures calculated in accordance with PFRS.
- (10) Ratio of Net Debt to EBITDA is computed using net debt and EBITDA based on the most recent four quarterly periods, in each case excluding amounts attributable to ring-fenced subsidiaries.

OPERATING EFFICIENCY

$$\text{Volume Growth (Decline)} = \frac{\text{Current Period Offtake Volume}}{\text{Prior Period Offtake Volume}} - 1$$

<i>(in GWh)</i>	Period Ended September 30	
	2017	2016
(A) Current Period Offtake Volume	12,818	13,531
(B) Prior Period Offtake Volume	13,531	12,345
Volume Growth (Decline) [(A / B) - 1]	(5.3%)	9.6%

$$\text{Revenue Growth (Decline)} = \frac{\text{Current Period Revenue}}{\text{Prior Period Revenue}} - 1$$

<i>(in Millions P)</i>	Period Ended September 30	
	2017	2016
(A) Current Period Revenue	62,117	60,700
(B) Prior Period Revenue	60,700	58,997
Revenue Growth (Decline) [(A / B) - 1]	2.3%	2.9%

$$\text{Operating Margin} = \frac{\text{Income from Operating Activities}}{\text{Revenues}}$$

<i>(in Millions P)</i>	Period Ended September 30	
	2017	2016
(A) Income from Operating Activities	19,668	22,838
(B) Revenues	62,117	60,700
Operating Margin (A) / (B)	31.7%	37.6%