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S. E. C. Registration Number

S M C G L O B A L P O W E R

H O L D I N G S C O R P .

(Company's Full Name)

5 t h F l o o r , C 5 O f f i c e

B u i l d i n g C o m p l e x ,

# 1 0 0 E . R o d r i g u e z

J r . A v e . B o . U g o n g ,

P a s i g C i t y 1 6 0 4

M e t r o M a n i l a

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

Atty. Julie Ann B. Domino-Pablo
Contact Person

+632-53171000
Company Telephone Number

1 2 | 3 1
*Month* *Day*
Fiscal Year

SEC Form 17-Q
(1st Quarter ended 31 March 2022)
FORM TYPE

0 6 | 1st Tues.
*Month* *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

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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 **March 31, 2022**

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. **5th Floor, C5 Office Building Complex,**
   **#100 E. Rodriguez Jr. Ave., C5 Road, Bo. Ugong**
   **Pasig City 1604, Metro Manila** — **1604**
   Address of issuer's principal office — Postal Code

8. **(632) 5317-1000**
   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

    **P15 billion worth of Fixed Rate Bonds issued in July 2016**
    **P20 billion worth of Fixed Rate Bonds issued in December 2017**
    **P15 billion worth of Fixed Rate Bonds issued in August 2018**
    **P30 billion worth of Fixed Rate Bonds issued in April 2019**

| | Number of shares of stock and debt outstanding (as of March 31, 2022) |
|---|---|
| **Common Shares** | **1,250,004,000** |
| **Consolidated Total Liabilities (in Thousands)** | **P394,336,472** |

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. N/A

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 March 31, 2022 (with comparative figures as of December 31, 2021 and for the period ended March 31, 2021) 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 May 16, 2022

Signature and Title **RAMON U. AGAY**
Comptroller/ Authorized Signatory

Date May 16, 2022

# ANNEX "A"

## SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
## (A Wholly-owned Subsidiary of San Miguel Corporation)
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## MARCH 31, 2022 AND DECEMBER 31, 2021
(In Thousands)

| | *Note* | **2022 (Unaudited)** | 2021 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *7, 20, 21* | **P59,023,294** | P67,690,151 |
| Trade and other receivables - net | *8, 13, 20, 21* | **57,874,472** | 47,272,302 |
| Inventories | | **9,678,764** | 10,017,822 |
| Prepaid expenses and other current assets | *20, 21* | **31,069,784** | 31,489,892 |
| **Total Current Assets** | | **157,646,314** | 156,470,167 |
| **Noncurrent Assets** | | | |
| Investments and advances - net | | **10,945,153** | 10,838,846 |
| Property, plant and equipment - net | *9* | **221,075,040** | 211,858,532 |
| Right-of-use assets - net | *6* | **156,728,230** | 157,159,661 |
| Deferred exploration and development costs | | **722,321** | 719,393 |
| Goodwill and other intangible assets - net | | **73,779,606** | 72,943,146 |
| Deferred tax assets | *18* | **1,578,117** | 1,447,415 |
| Other noncurrent assets | *20, 21* | **23,814,995** | 24,287,040 |
| **Total Noncurrent Assets** | | **488,643,462** | 479,254,033 |
| | | **P646,289,776** | P635,724,200 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Loans payable | *10, 20, 21* | **P776,100** | P1,529,970 |
| Accounts payable and accrued expenses | *11, 12, 13, 20, 21* | **60,220,958** | 56,055,226 |
| Lease liabilities - current portion | *6, 20, 21* | **19,809,006** | 21,677,035 |
| Income tax payable | | **24,596** | 24,754 |
| Current maturities of long-term debt - net of debt issue costs | *12, 20, 21* | **63,733,615** | 30,185,418 |
| **Total Current Liabilities** | | **144,564,275** | 109,472,403 |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of current maturities and debt issue costs | *12, 20, 21* | **169,597,311** | 192,736,025 |
| Deferred tax liabilities | *18* | **21,560,254** | 20,182,639 |
| Lease liabilities - net of current portion | *6, 20, 21* | **53,400,355** | 56,536,324 |
| Other noncurrent liabilities | *20, 21* | **5,214,277** | 5,068,211 |
| **Total Noncurrent Liabilities** | | **249,772,197** | 274,523,199 |
| **Total Liabilities** | | **394,336,472** | 383,995,602 |

*Forward*

| | Note | 2022 (Unaudited) | 2021 (Audited) |
|---|---|---|---|
| **Equity** | | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | | |
| Capital stock | | **P1,062,504** | P1,062,504 |
| Additional paid-in capital | | **2,490,000** | 2,490,000 |
| Senior perpetual capital securities | | **167,767,364** | 167,767,364 |
| Redeemable perpetual securities | | **32,751,570** | 32,751,570 |
| Equity reserves | | **(1,519,191)** | (1,536,280) |
| Retained earnings | | **48,426,235** | 48,247,948 |
| | | **250,978,482** | 250,783,106 |
| **Non-controlling Interests** | | **974,822** | 945,492 |
| **Total Equity** | | **251,953,304** | 251,728,598 |
| | | **P646,289,776** | P635,724,200 |

*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 INCOME
## FOR THE PERIODS ENDED MARCH 31, 2022 AND 2021
(In Thousands, Except Per Share Data)

| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
|---|---|---|---|
| **REVENUES** | *5, 13, 15* | **P43,036,057** | P27,365,880 |
| **COST OF POWER SOLD** | *13, 16* | **35,807,064** | 17,730,296 |
| **GROSS PROFIT** | | **7,228,993** | 9,635,584 |
| **SELLING AND ADMINISTRATIVE EXPENSES** | *8, 9* | **1,158,134** | 1,212,425 |
| **INCOME FROM OPERATIONS** | | **6,070,859** | 8,423,159 |
| **INTEREST EXPENSE AND OTHER FINANCING CHARGES** | *6, 10, 12* | **(4,092,076)** | (4,595,202) |
| **INTEREST INCOME** | *7* | **216,824** | 124,709 |
| **EQUITY IN NET EARNINGS OF AN ASSOCIATE AND JOINT VENTURES** | | **60,373** | 36,736 |
| **OTHER INCOME** - Net | *17* | **1,084,997** | 2,083,265 |
| **INCOME BEFORE INCOME TAX** | | **3,340,977** | 6,072,667 |
| **INCOME TAX EXPENSE (BENEFIT)** | *18* | **1,413,326** | (1,704,100) |
| **NET INCOME** | | **P1,927,651** | P7,776,767 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **P1,895,982** | P7,786,903 |
| Non-controlling interests | | **31,669** | (10,136) |
| | | **P1,927,651** | P7,776,767 |
| **Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company** | | | |
| Basic/diluted | *19* | **(P1.79)** | P3.17 |

*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 COMPREHENSIVE INCOME
## FOR THE PERIODS ENDED MARCH 31, 2022 AND 2021
(In Thousands)

| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
|---|---|---|---|
| **NET INCOME** | | **P1,927,651** | P7,776,767 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Items that may not be reclassified to profit or loss** | | | |
| Equity reserve for retirement plan | | **-** | (59) |
| **Items that may be reclassified to profit or loss** | | | |
| Gain on exchange differences on translation of foreign operations | | **5,566** | 354,947 |
| Net gain on cash flow hedges | *21* | **11,523** | 20,082 |
| | | **17,089** | 375,029 |
| **OTHER COMPREHENSIVE INCOME** - Net of tax | | **17,089** | 374,970 |
| **TOTAL COMPREHENSIVE INCOME** - Net of tax | | **P1,944,740** | P8,151,737 |
| **Attributable to:** | | | |
| Equity holders of the Parent Company | | **P1,913,071** | P8,161,873 |
| Non-controlling interests | | **31,669** | (10,136) |
| | | **P1,944,740** | P8,151,737 |

*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 MARCH 31, 2022 AND 2021
(In Thousands)

| | | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity Reserves | | | | | | | |
| | Note | Capital Stock | Additional Paid-in Capital | Senior Perpetual Capital Securities | Undated Subordinated Capital Securities | Redeemable Perpetual Securities | Equity Reserves | Translation Reserves | Reserve for Retirement Plan | Hedging Reserve | Retained Earnings | Total | Non-controlling Interests | Total Equity |
| **As at January 1, 2022 (Audited)** | | **P1,062,504** | **P2,490,000** | **P167,767,364** | **P -** | **P32,751,570** | **(P2,379,442)** | **P880,548** | **(P46,195)** | **P8,809** | **P48,247,948** | **P250,783,106** | **P945,492** | **P251,728,598** |
| Net income | | - | - | - | - | - | - | - | - | - | 1,895,982 | 1,895,982 | 31,669 | 1,927,651 |
| Other comprehensive income - net of tax | | - | - | - | - | - | - | 5,566 | - | 11,523 | - | 17,089 | - | 17,089 |
| Total comprehensive income | | - | - | - | - | - | - | 5,566 | - | 11,523 | 1,895,982 | 1,913,071 | 31,669 | 1,944,740 |
| Stock issuance cost | | - | - | - | - | - | - | - | - | - | (26,838) | (26,838) | (2,339) | (29,177) |
| Distributions: | | | | | | | | | | | | | | |
| Redeemable perpetual securities | *14* | - | - | - | - | - | - | - | - | - | (520,305) | (520,305) | - | (520,305) |
| Senior perpetual capital securities | *14* | - | - | - | - | - | - | - | - | - | (1,170,552) | (1,170,552) | - | (1,170,552) |
| Transactions with owners | | - | - | - | - | - | - | - | - | - | (1,717,695) | (1,717,695) | (2,339) | (1,720,034) |
| **As at March 31, 2022 (Unaudited)** | | **P1,062,504** | **P2,490,000** | **P167,767,364** | **P -** | **P32,751,570** | **(P2,379,442)** | **P886,114** | **(P46,195)** | **P20,332** | **P48,426,235** | **P250,978,482** | **P974,822** | **P251,953,304** |
| As at January 1, 2021, (Audited) | | P1,062,504 | P2,490,000 | P132,199,732 | P13,823,499 | P32,751,570 | (P1,621,661) | (P2,500,221) | (P59,057) | (P47,153) | P47,178,853 | P225,278,066 | P1,025,955 | P226,304,021 |
| Net income (loss) | | - | - | - | - | - | - | - | - | - | 7,786,903 | 7,786,903 | (10,136) | 7,776,767 |
| Other comprehensive income (loss) - net of tax | | - | - | - | - | - | - | 354,947 | (59) | 20,082 | - | 374,970 | - | 374,970 |
| Total comprehensive income (loss) | | - | - | - | - | - | - | 354,947 | (59) | 20,082 | 7,786,903 | 8,161,873 | (10,136) | 8,151,737 |
| Redemption of undated subordinated capital securities | *14, 22* | - | - | - | (13,823,499) | - | (758,001) | - | - | - | - | (14,581,500) | - | (14,581,500) |
| Distributions: | | | | | | | | | | | | | | |
| Senior perpetual capital securities | *14* | - | - | - | - | - | - | - | - | - | (1,174,037) | (1,174,037) | - | (1,174,037) |
| Undated subordinated capital securities | *14* | - | - | - | - | - | - | - | - | - | (703,037) | (703,037) | - | (703,037) |
| Redeemable perpetual securities | *14* | - | - | - | - | - | - | - | - | - | (492,375) | (492,375) | - | (492,375) |
| Transactions with owners | | - | - | - | (13,823,499) | - | (758,001) | - | - | - | (2,369,449) | (16,950,949) | - | (16,950,949) |
| As at March 31, 2021 (Unaudited) | | P1,062,504 | P2,490,000 | P132,199,732 | P - | P32,751,570 | (P2,379,662) | (P2,145,274) | (P59,116) | (P27,071) | P52,596,307 | P216,488,990 | P1,015,819 | P217,504,809 |

*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 CASH FLOWS**
**FOR THE PERIODS ENDED MARCH 31, 2022 AND 2021**
(In Thousands)

| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | | **P3,340,977** | P6,072,667 |
| Adjustments for: | | | |
| Interest expense and other financing charges | *6, 12* | **4,092,076** | 4,595,202 |
| Depreciation and amortization | *9, 16* | **2,940,135** | 2,777,198 |
| Unrealized foreign exchange losses - net | | **397,285** | 467,933 |
| Impairment loss on trade receivables | *8* | **14,871** | - |
| Retirement cost | | **12,519** | 11,729 |
| Reversal of allowance on other receivables | *8, 17* | **(11,462)** | (99,089) |
| Equity in net earnings of an associate and joint ventures - net | | **(60,373)** | (36,736) |
| Interest income | *7* | **(216,824)** | (124,709) |
| Unrealized marked-to-market gain on derivatives | *21* | **(699,655)** | (48,377) |
| Operating income before working capital changes | | **9,809,549** | 13,615,818 |
| Decrease (increase) in: | | | |
| Trade and other receivables - net | | **(11,139,044)** | 2,337,695 |
| Inventories | | **339,058** | 169,024 |
| Prepaid expenses and other current assets | | **506,628** | (1,407,068) |
| Increase in: | | | |
| Accounts payable and accrued expenses | | **5,267,671** | 1,274,966 |
| Other noncurrent liabilities and others | | **196,663** | 380,630 |
| Cash generated from operations | | **4,980,525** | 16,371,065 |
| Interest income received | | **197,473** | 131,690 |
| Income taxes paid | | **(68,484)** | (130,540) |
| Interest expense and other financing charges paid | | **(3,900,690)** | (4,463,035) |
| Net cash flows provided by operating activities | | **1,208,824** | 11,909,180 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to deferred exploration and development costs | | **(2,819)** | (657) |
| Additions to intangible assets | | **(34,386)** | (7,927) |
| Additions to investments and advances | | **(45,934)** | (8,432) |
| Decrease (increase) in other noncurrent assets | | **(75,908)** | 100,915 |
| Advances paid to suppliers and contractors | | **(2,856,366)** | (77,232) |
| Additions to property, plant and equipment | *9* | **(7,604,345)** | (5,404,954) |
| Net cash flows used in investing activities | | **(10,619,758)** | (5,398,287) |

*Forward*

| | Note | **2022 (Unaudited)** | 2021 (Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long-term debt | *12, 22* | **P10,274,000** | P9,691,000 |
| Proceeds from short-term borrowings | *10, 22* | **782,100** | 1,682,800 |
| Distributions paid to undated subordinated capital securities holders | *14* | **-** | (703,037) |
| Redemption of undated subordinated capital securities | *14, 22* | **-** | (14,581,500) |
| Payments of stock issuance costs | | **(29,177)** | - |
| Distributions paid to redeemable perpetual securities holder | *14* | **(520,305)** | (492,375) |
| Payments of long-term debts | *12, 22* | **(926,686)** | (10,559,973) |
| Distributions paid to senior perpetual capital securities holders | *14* | **(1,170,552)** | (1,174,037) |
| Payments of short-term borrowings | *10, 22* | **(1,564,200)** | (1,682,800) |
| Payments of lease liabilities | *6, 22* | **(6,503,642)** | (5,817,250) |
| Net cash flows provided by (used in) financing activities | | **341,538** | (23,637,172) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **402,539** | 336,296 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(8,666,857)** | (16,789,983) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | | **67,690,151** | 110,717,686 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | *7* | **P59,023,294** | P93,927,703 |

*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**
**TRADE AND OTHER RECEIVABLES**
**March 31, 2022**
(Amounts in Thousands)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **Past Due** | | | | | | | |
| | | **Total** | | **Current** | | **1 - 30 Days** | | **31 - 60 Days** | | **61 - 90 Days** | | **Over 90 Days** |
| Trade | P | 48,483,748 | P | 25,847,330 | P | 3,561,467 | P | 1,812,424 | P | 974,890 | P | 16,287,637 |
| Non-trade | | 8,865,178 | | 29,456 | | 165,377 | | 144,645 | | 291,189 | | 8,234,511 |
| Amounts owed by related parties | | 3,206,367 | | 2,032,277 | | 528,344 | | 10,876 | | 40,284 | | 594,586 |
| Total | | 60,555,293 | P | 27,909,063 | P | 4,255,188 | P | 1,967,945 | P | 1,306,363 | P | 25,116,734 |
| Less allowance for impairment losses | | 2,680,821 | | | | | | | | | | |
| Net | P | 57,874,472 | | | | | | | | | | |

**SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES**
**(A Wholly-owned Subsidiary of San Miguel Corporation)**

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data and Number of Shares)

## 1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, assign, lease, develop, operate and dispose of all properties of every kind and description, and shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company has a perpetual corporate life in accordance with the Revised Corporation Code of the Philippines which took effect on February 23, 2019.

On December 22, 2021, the Philippine SEC approved the change of the Parent Company's principal office from 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila to 5th Floor, C5 Office Building Complex, #100 E. Rodriguez Jr. Ave., C5 Road, Bo. Ugong, Pasig City 1604, Metro Manila.

The accompanying interim consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in an associate and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc.

## 2. Basis of Preparation

Statement of Compliance

The accompanying interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting,* and should be read in conjunction with the Group's last annual audited consolidated financial statements as at and for the year ended December 31, 2021. They do not include all the information required for a complete set of Philippine Financial Reporting Standards (PFRS) financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual audited consolidated financial statements.

The interim consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on May 2, 2022.

Basis of Measurement
The interim consolidated financial statements of the Group have been prepared on a historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

| Items | Measurement Basis |
|---|---|
| Financial assets at fair value through profit or loss (FVPL) | Fair value |
| Defined benefit retirement liability | Present value of the defined benefit retirement obligation |

Functional and Presentation Currency
The interim consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation
The interim consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

| | Percentage of Ownership | |
|---|---|---|
| | **March 31, 2022** | December 31, 2021 |
| *Power Generation* | | |
| San Miguel Energy Corporation (SMEC) | **100** | 100 |
| South Premiere Power Corp. (SPPC) | **100** | 100 |
| Strategic Power Devt. Co. (SPDC) | **100** | 100 |
| SMC PowerGen Inc. | **100** | 100 |
| SMC Consolidated Power Corporation (SCPC) *(a)* | **100** | 100 |
| San Miguel Consolidated Power Corporation (SMCPC) *(b)* | **100** | 100 |
| Central Luzon Premiere Power Corp. | **100** | 100 |
| Lumiere Energy Technologies Inc. | **100** | 100 |
| PowerOne Ventures Energy Inc. (PVEI) *(c)* | **100** | 100 |
| Prime Electric Generation Corporation (PEGC) | **100** | 100 |
| Oceantech Power Generation Corporation (OPGC) | **100** | 100 |
| Masinloc Power Partners Co. Ltd. (MPPCL) *(d)* | **100** | 100 |
| SMCGP Philippines Energy Storage Co. Ltd. (SMCGP Philippines Energy) *(e)* | **100** | 100 |
| Premiere Energy Resources, Inc. (formerly Masinloc Energy Resources Inc. [MERI]) *(f)* | **100** | 100 |
| Power Ventures Generation Corporation | **100** | 100 |
| TopGen Energy Development Inc. | **100** | 100 |
| Universal Power Solutions, Inc. (UPSI) | **100** | 100 |
| Mariveles Power Generation Corporation (MPGC) *(g)* | **92** | 92 |
| Everest Power Development Corporation | **100** | 100 |
| SMC Global Light and Power Corp. | **100** | 100 |
| Prestige Power Resources Inc. | **100** | 100 |
| Reliance Energy Development Inc. | **100** | 100 |
| Ascend Power Resources Inc. | **100** | 100 |
| Converge Power Generation Corp. | **100** | 100 |
| EnergyCore Resources Inc. | **100** | 100 |
| Strategic Energy Development Inc. | **100** | 100 |
| Excellent Energy Resources Inc. (EERI) | **100** | 100 |

*Forward*

| | Percentage of Ownership | |
|---|---|---|
| | **March 31, 2022** | December 31, 2021 |
| *Retail and Other Power-related Services* | | |
| San Miguel Electric Corp. (SMELC) | **100** | 100 |
| Albay Power and Energy Corp. | **100** | 100 |
| SMC Power Generation Corp. (SPGC) [(h)] | **100** | 100 |
| *Coal Mining* | | |
| Daguma Agro-Minerals, Inc. [(i)] | **100** | 100 |
| Sultan Energy Phils. Corp. [(i)] | **100** | 100 |
| Bonanza Energy Resources, Inc. [(i)] | **100** | 100 |
| *Others* | | |
| Mantech Power Dynamics Services Inc. | **100** | 100 |
| Safetech Power Services Corp. | **100** | 100 |
| Ondarre Holding Corporation | **100** | 100 |
| Grand Planters International, Inc. | **100** | 100 |
| Golden Quest Equity Holdings Inc. [(i)] | **100** | 100 |
| SMCGP Transpower Pte. Ltd. | **100** | 100 |
| SMCGP Philippines Inc. | **100** | 100 |
| Dewsweeper Industrial Park, Inc. | **100** | 100 |
| Soracil Prime Inc. [(j)] | **100** | 100 |

*(a) Owner of the 4 x 150 megawatts (MW) Circulating Fluidized Bed (CFB) coal-fired power plant in Limay, Bataan (Phase I and II Limay Greenfield Power Plant).*

*(b) Owner of the 2 x 150 MW CFB coal-fired power plant in Malita, Davao (Davao Greenfield Power Plant).*

*(c) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation as joint ventures.*

*(d) Co-owned by the Parent Company (with its wholly-owned subsidiaries SMCGP Masin Pte. Ltd., SMCGP Masinloc Partners Company Limited, and SMCGP Masinloc Power Company Limited, and owner of the Masinloc Power Plant (Notes 9).*

*(e) Indirectly owned by the Parent Company, through its wholly-owned subsidiaries PEGC and OPGC, and owner of the battery energy storage system (BESS) facility in Kabankalan, Negros Occidental.*

*(f) On November 22, 2021, MERI changed its name to Premiere Energy Resources, Inc.*

*(g) The Parent Company subscribed to additional unissued common shares of MPGC in December 2021, thereby increasing its ownership interest from 89.54% to 91.98%. Non-controlling interests represent the 7.71% and 0.31% held by Meralco PowerGen Corporation and by Zygnet Prime Holdings, Inc., respectively. It has not yet started commercial operations as at March 31, 2022.*

*(h) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc., (OEDC) as an associate.*

*(i) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as at March 31, 2022.*

*(j) Acquired on March 15, 2021.*

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in MPGC as at March 31, 2022 and December 31, 2021.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

## 3. Summary of Significant Accounting and Financial Reporting Policies

Except as described below, the accounting policies applied by the Group in these interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2021. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending December 31, 2022.

Adoption of Amended Standard
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards as part of PFRS.

*Amended Standards Adopted in 2022*

The Group has adopted the following PFRS effective January 1, 2022 and accordingly, changed its accounting policies in the following areas:

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of an entity's ordinary activities, the amendments require the entity to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statements of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statements of comprehensive income.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

- Annual Improvements to PFRS 2018-2020. This cycle of improvements contains amendments to four standards, of which only the following are applicable to the Group:

  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *Financial Instruments*). This amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, *Leases*). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

*Amended Standards Not Yet Adopted*

A number of amended standards are effective for annual periods beginning after January 1, 2022 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following amended standards on the respective effective dates:

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes accounting estimates.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

Deferral of the local implementation of Amendments to PFRS 10*, Consolidated Financial Statements,* and PAS 28, *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Financial Instruments

*Recognition and Initial Measurement.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

*Financial Assets*

The Group classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operations of those policies in practice;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how employees of the business are compensated; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;

- terms that may adjust the contractual coupon rate, including variable rate features;

- prepayment and extension features; and

- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial assets acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and restricted cash are included under this category.

Cash includes cash on hand and in banks. 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 (Notes 7, 20 and 21).

*Financial Assets at FVOCI*. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's derivative assets that are designated as cash flow hedge are classified under this category (Notes 20 and 21).

*Financial Assets at FVPL.* All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. These include derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, the Group may irrevocably designate a financial asset as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 20 and 21).

*Financial Liabilities*

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities that are not classified as cash flow hedge are classified under this category (Notes 20 and 21).

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

The Group's liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 6, 10, 11, 12, 20 and 21).

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

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

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets
The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime ECLs for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

At each reporting date, the Group assesses whether financial assets at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Classification of Financial Instruments between Liability and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

## 4. Use of Judgments, Estimates and Assumptions

In preparing these interim 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, 2021.

## 5. Segment Information

Operating Segments

The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's chief operating decision maker in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these operating segments make it more useful to users of the interim consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the preparatory stages of mining activities.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, right-of-use assets, net of allowances, accumulated depreciation and amortization, and impairment, deferred exploration and development costs, and other noncurrent assets. Segment liabilities include all operating liabilities and consist primarily of loans payable, accounts payable and accrued expenses, lease liabilities, and other noncurrent liabilities. Segment assets and liabilities do not include deferred taxes. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Such transactions are eliminated in consolidation.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P16,944,085 and P11,098,320 for the periods ended March 31, 2022 and 2021, respectively, represents more than 10% of the Group's total revenues.

For management reporting purposes, the Group's operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

| | For the Periods Ended March 31 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Power Generation | | Retail and Other Power-related Services | | Coal Mining | | Others | | Eliminations | | Consolidated | |
| | **2022 (Unaudited)** | 2021 (Unaudited) | **2022 (Unaudited)** | 2021 (Unaudited) | **2022 (Unaudited)** | 2021 (Unaudited) | **2022 (Unaudited)** | 2021 (Unaudited) | **2022 (Unaudited)** | 2021 (Unaudited) | **2022 (Unaudited)** | 2021 (Unaudited) |
| **Revenues** | | | | | | | | | | | | |
| External | **P36,177,404** | P22,622,658 | **P6,816,504** | P4,710,518 | **P -** | P - | **P42,149** | P32,704 | **P -** | P - | **P43,036,057** | P27,365,880 |
| Inter-segment | **3,837,368** | 5,126,382 | **2,025** | 3,975 | **-** | - | **281,263** | 203,136 | **(4,120,656)** | (5,333,493) | **-** | - |
| | **40,014,772** | 27,749,040 | **6,818,529** | 4,714,493 | **-** | - | **323,412** | 235,840 | **(4,120,656)** | (5,333,493) | **43,036,057** | 27,365,880 |
| **Costs and Expenses** | | | | | | | | | | | | |
| Cost of power sold | **32,688,746** | 19,304,553 | **6,923,566** | 3,540,855 | **-** | - | **189,060** | 155,017 | **(3,994,308)** | (5,270,129) | **35,807,064** | 17,730,296 |
| Selling and administrative expenses | **929,262** | 1,049,786 | **209,146** | 208,277 | **1,951** | 1,934 | **424,728** | 313,283 | **(406,953)** | (360,855) | **1,158,134** | 1,212,425 |
| | **33,618,008** | 20,354,339 | **7,132,712** | 3,749,132 | **1,951** | 1,934 | **613,788** | 468,300 | **(4,401,261)** | (5,630,984) | **36,965,198** | 18,942,721 |
| **Segment Result** | **P6,396,764** | P7,394,701 | **(P314,183)** | P965,361 | **(P1,951)** | (P1,934) | **(P290,376)** | (P232,460) | **P280,605** | P297,491 | **6,070,859** | 8,423,159 |
| Interest expense and other financing charges | | | | | | | | | | | **(4,092,076)** | (4,595,202) |
| Interest income | | | | | | | | | | | **216,824** | 124,709 |
| Equity in net earnings of an associate and joint ventures – net | | | | | | | | | | | **60,373** | 36,736 |
| Other income – net | | | | | | | | | | | **1,084,997** | 2,083,265 |
| Income tax benefit (expense) | | | | | | | | | | | **(1,413,326)** | 1,704,100 |
| **Consolidated Net Income** | | | | | | | | | | | **P1,927,651** | P7,776,767 |

| | As at and For the Periods Ended | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Power Generation | | Retail and Other Power-related Services | | Coal Mining | | Others | | Eliminations | | Consolidated | |
| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) | **March 31, 2022 (Unaudited))** | December 31, 2021 (Audited) | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
| **Other Information** | | | | | | | | | | | | |
| Segment assets | **P517,272,971** | P496,862,462 | **P12,115,820** | P13,927,745 | **P739,543** | P736,789 | **P102,317,882** | P110,153,274 | **(P72,459,316)** | (P71,185,477) | **P559,986,900** | P550,494,793 |
| Investments and advances – net | **9,497,024** | 9,368,275 | **215,269** | 231,597 | **-** | - | **301,049,155** | 295,842,856 | **(299,816,295)** | (294,603,882) | **10,945,153** | 10,838,846 |
| Goodwill and other intangible assets – net | | | | | | | | | | | **73,779,606** | 72,943,146 |
| Deferred tax assets | | | | | | | | | | | **1,578,117** | 1,447,415 |
| **Consolidated Total Assets** | | | | | | | | | | | **P646,289,776** | P635,724,200 |
| Segment liabilities | **P244,158,103** | P238,452,748 | **P8,476,086** | P8,126,374 | **P847,213** | P842,509 | **P6,049,065** | P5,490,372 | **(P120,109,771)** | (P112,045,237) | **P139,420,696** | P140,866,766 |
| Long-term debt – net | | | | | | | | | | | **233,330,926** | 222,921,443 |
| Income tax payable | | | | | | | | | | | **24,596** | 24,754 |
| Deferred tax liabilities | | | | | | | | | | | **21,560,254** | 20,182,639 |
| **Consolidated Total Liabilities** | | | | | | | | | | | **P394,336,472** | P383,995,602 |
| Capital expenditures | **P7,612,067** | P39,274,510 | **P -** | P - | **P -** | P - | **P45,195** | P420,597 | **(P52,917)** | (P100,510) | **P7,604,345** | P39,594,597 |
| Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets | **2,422,281** | 9,541,894 | **474,265** | 1,699,272 | **-** | - | **50,912** | 165,396 | **(7,323)** | (32,362) | **2,940,135** | 11,374,200 |
| Noncash items other than depreciation and amortization | **107,067** | 3,609,404 | **95,722** | (233,052) | **(2)** | (8) | **150,053** | (1,924,582) | **-** | - | **352,840** | 1,451,762 |

**Noncash items other than depreciation and amortization include unrealized foreign exchange losses, retirement cost, equity in net earnings of an associate and joint ventures – net, impairment losses on trade and other receivables (net of reversals), property, plant and equipment, and others.*

## 6. Significant Agreements and Lease Commitments

Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by Power Sector Assets and Liabilities Management Corporation (PSALM) for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

| Subsidiary | Power Plant | Location |
|---|---|---|
| SMEC | Sual Coal – Fired Power Station (Sual Power Plant) | Sual, Pangasinan Province |
| SPDC | San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant) | San Roque, Pangasinan Province |
| SPPC | Ilijan Natural Gas – Fired Combined Cycle Power Plant (Ilijan Power Plant) | Ilijan, Batangas Province |

The IPPA Agreements are with the conformity of the National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P5,621,171 and P4,794,620 for the periods ended March 31, 2022 and 2021, respectively (Note 16). SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305, which will expire on November 3, 2022 and January 25, 2023, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 22).

The lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

| | US Dollar | Philippine Peso |
|---|---|---|
| SMEC | 3.89% | 8.16% |
| SPPC | 3.85% | 8.05% |
| SPDC | 3.30% | 7.90% |

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of “Interest expense and other financing charges” account in the interim consolidated statements of income. Interest expense amounted to P974,654 and P1,294,880 for the periods ended March 31, 2022 and 2021, respectively.

SMEC, SPDC and SPPC’s power plants under lease arrangement, presented under “Right-of-use assets – net” account in the consolidated statements of financial position, amounted to P150,531,280 and P151,827,880 as at March 31, 2022 and December 31, 2021, respectively.

On April 4, 2022, SPPC entered into a long-term lease agreement with PSALM for parcels of land with an aggregate area of 242,445.50 square meters. The leased properties shall be used for the operation, management, expansion and maintenance of the Ilijan Power Plant, commencing upon the expiration of the existing IPPA agreement between SPPC and PSALM in June 2022. The lease agreement shall expire after 25 years and is subject to renewal upon mutual agreement of both parties.

The total cash outflows amounted to P7,444,710 and P7,140,783 for the periods ended March 31, 2022 and 2021, respectively.

Maturity analysis of lease payments as at March 31, 2022 and December 31, 2021 are disclosed in Note 20.

## 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| Cash in banks and on hand | | **P17,113,750** | P18,485,740 |
| Short-term investments | | **41,909,544** | 49,204,411 |
| | *20, 21* | **P59,023,294** | P67,690,151 |

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P200,312 and P120,779 for the periods ended March 31, 2022 and 2021, respectively.

## 8. Trade and Other Receivables

Trade and other receivables consist of:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| Trade | | **P48,483,748** | P37,096,420 |
| Non-trade | | **8,865,178** | 9,723,627 |
| Amounts owed by related parties | *13* | **3,206,367** | 3,124,337 |
| | | **60,555,293** | 49,944,384 |
| Less allowance for impairment losses | | **2,680,821** | 2,672,082 |
| | *20, 21* | **P57,874,472** | P47,272,302 |

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day term or an agreed collection period. The balance of trade receivables is inclusive of value-added tax (VAT) on the sale of power collectible from customers.

The movements in the allowance for impairment losses are as follows:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| Balance at beginning of period | | **P2,672,082** | P3,034,110 |
| Impairment losses during the period | | **14,871** | 44,006 |
| Cumulative translation adjustment | | **5,330** | 4,399 |
| Reversal during the period | *17* | **(11,462)** | (410,433) |
| Balance at end of period | | **P2,680,821** | P2,672,082 |

Impairment losses recognized in the interim consolidated statements of income under “Selling and administrative expenses” account amounted to P14,871 and nil for the periods ended March 31, 2022 and 2021, respectively. Certain trade and other receivables were collected and the related allowance for impairment losses recognized in prior years were reversed accordingly.

## 9. Property, Plant and Equipment

Property, plant and equipment consist of:

**March 31, 2022 and December 31, 2021**

| | Power Plants | Land and Leasehold Improvements | Other Equipment | Building | Capital Projects in Progress (CPIP) | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| January 1, 2021 (Audited) | P128,513,724 | P13,159,019 | P4,777,476 | P3,861,451 | P34,270,780 | P184,582,450 |
| Additions | 527,220 | 342,780 | 339,283 | 4,803 | 38,380,511 | 39,594,597 |
| Acquisition of a subsidiary | - | 781,995 | - | - | - | 781,995 |
| Reclassifications | 2,619,673 | (70,095) | 641,642 | 5,102 | (309,903) | 2,886,419 |
| Currency translation adjustments | 4,287,195 | 31,999 | 199,017 | 186,554 | 151,201 | 4,855,966 |
| December 31, 2021 (Audited) | 135,947,812 | 14,245,698 | 5,957,418 | 4,057,910 | 72,492,589 | 232,701,427 |
| Additions | 154,715 | 4,120 | 23,065 | - | 7,422,445 | 7,604,345 |
| Reclassifications | 560,361 | - | 78,772 | 92,435 | 2,475,695 | 3,207,263 |
| Currency translation adjustments | - | 29 | 214 | - | - | 243 |
| **March 31, 2022 (Unaudited)** | **136,662,888** | **14,249,847** | **6,059,469** | **4,150,345** | **82,390,729** | **243,513,278** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| January 1, 2021 (Audited) | 11,678,212 | 444,324 | 720,724 | 191,642 | - | 13,034,902 |
| Depreciation and amortization | 5,248,687 | 196,429 | 401,056 | 114,162 | - | 5,960,334 |
| Reclassifications | - | - | 48,326 | - | - | 48,326 |
| Currency translation adjustments | 1,561,861 | 1,464 | 43,991 | 17,043 | - | 1,624,359 |
| December 31, 2021 (Audited) | 18,488,760 | 642,217 | 1,214,097 | 322,847 | - | 20,667,921 |
| Depreciation and amortization | 1,399,011 | 54,142 | 97,696 | 30,716 | - | 1,581,565 |
| Reclassifications | - | - | 13,544 | - | - | 13,544 |
| Currency translation adjustments | - | 21 | 213 | - | - | 234 |
| **March 31, 2022 (Unaudited)** | **19,887,771** | **696,380** | **1,325,550** | **353,563** | **-** | **22,263,264** |
| **Accumulated Impairment Losses** | | | | | | |
| January 1, 2021 (Audited) | - | - | 132,111 | - | - | 132,111 |
| Impairment | - | - | 34,991 | - | - | 34,991 |
| Currency translation adjustments | - | - | 7,872 | - | - | 7,872 |
| **December 31, 2021 (Audited) and March 31, 2022 (Unaudited)** | **-** | **-** | **174,974** | **-** | **-** | **174,974** |
| **Carrying Amount** | | | | | | |
| December 31, 2021 (Audited) | P117,459,052 | P13,603,481 | P4,568,347 | P3,735,063 | P72,492,589 | P211,858,532 |
| **March 31, 2022 (Unaudited)** | **P116,775,117** | **P13,553,467** | **P4,558,945** | **P3,796,782** | **P82,390,729** | **P221,075,040** |

## March 31, 2021

| | Power Plants | Land and Leasehold Improvements | Other Equipment | Building | CPIP | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| January 1, 2021 (Audited) | P128,513,724 | P13,159,019 | P4,777,476 | P3,861,451 | P34,270,780 | P184,582,450 |
| Additions | 63,703 | 48,360 | 26,090 | - | 5,266,801 | 5,404,954 |
| Acquisition of a subsidiary | - | 779,505 | - | - | - | 779,505 |
| Reclassifications | 44,369 | 704 | 77,281 | 3,124 | 36,127 | 161,605 |
| Currency translation adjustments | 729,127 | 5,434 | 36,841 | 31,704 | 14,457 | 817,563 |
| March 31, 2021 (Unaudited) | 129,350,923 | 13,993,022 | 4,917,688 | 3,896,279 | 39,588,165 | 191,746,077 |
| Accumulated Depreciation and Amortization | | | | | | |
| January 1, 2021 (Audited) | 11,678,212 | 444,324 | 720,724 | 191,642 | - | 13,034,902 |
| Depreciation and amortization | 1,293,853 | 45,930 | 68,177 | 29,274 | - | 1,437,234 |
| Reclassifications | - | - | 11,035 | - | - | 11,035 |
| Currency translation adjustments | 225,037 | 72 | 7,862 | 1,734 | - | 234,705 |
| March 31, 2021 (Unaudited) | 13,197,102 | 490,326 | 807,798 | 222,650 | - | 14,717,876 |
| Accumulated Impairment Losses | | | | | | |
| January 1, 2021 (Audited) | - | - | 132,111 | - | - | 132,111 |
| Currency translation adjustments | - | - | 1,395 | - | - | 1,395 |
| March 31, 2021 (Unaudited) | - | - | 133,506 | - | - | 133,506 |
| Carrying Amount | | | | | | |
| March 31, 2021 (Unaudited) | P116,153,821 | P13,502,696 | P3,976,384 | P3,673,629 | P39,588,165 | P176,894,695 |

a. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.

b. CPIP pertains to the following:

   i. Projects of MPPCL for the construction of the Masinloc Power Plant Unit 4, 20 MW BESS, Unit 1 turbine retrofit, and other related facilities.

   ii. Expenditures of MPGC related to the construction of its power plant project in Mariveles, Bataan.

   iii. Projects of UPSI for the construction of BESS facilities and gas turbine generators situated in various locations in the Philippines.

   iv. Projects of SMCGP Philippines Energy for the construction of BESS facilities in Kabankalan, Negros Occidental

   Following the commercial operations of the 20 MW Kabankalan 1 BESS on January 26, 2022, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

   v. Initial expenditures of EERI related to the development of its combined cycle power plant in Batangas.

   vi. Various construction works relating to the respective power plant facilities of SCPC and SMCPC.

c. Depreciation and amortization related to property, plant and equipment are recognized in the interim consolidated statements of income as follows:

| | | March 31 | |
|---|---|---|---|
| | ***Note*** | **2022 (Unaudited)** | 2021 (Unaudited) |
| Cost of power sold | *16* | **P1,458,865** | P1,350,553 |
| Selling and administrative expenses | | **122,700** | 86,681 |
| | | **P1,581,565** | P1,437,234 |

Total depreciation and amortization recognized in the interim consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P64,151 and P61,848 for the periods ended March 31, 2022 and 2021, respectively. No impairment loss was recognized for periods ended March 31, 2022 and 2021.

The Group has borrowing costs amounting to P368,499 and P1,059,256, which were capitalized for the period ended March 31, 2022 and for the year ended December 31, 2021, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization was 7.47% as at March 31, 2022 and December 31, 2021. The unamortized capitalized borrowing costs amounted to P8,247,976 and P7,943,628 as at March 31, 2022 and December 31, 2021, respectively (Note 12).

Reclassifications also include application of advances to contractors against progress billings for capital projects in progress.

As at March 31, 2022 and December 31, 2021, certain property, plant and equipment amounting to P125,767,726 and P127,318,347, respectively, are pledged as security for syndicated project finance loans (Note 12).

Certain fully depreciated property, plant and equipment with aggregate costs amounting to P4,571,397 and P4,460,275 as at March 31, 2022 and December 31, 2021, respectively, are still being used in the Group's operations.

## 10. Loans Payable

Loans payable amounting to P776,100 and P1,529,970 as at March 31, 2022 and December 31, 2021, respectively, mainly represents the unsecured short-term US dollar-denominated loan obtained from a local bank. Interest rate is 3.75% as at March 31, 2022 and December 31, 2021.

Interest expense on loans payable amounted to P13,302 and P15,846 for the periods ended March 31, 2022 and 2021, respectively.

On March 17, 2022, MPPCL paid US$15,000 (equivalent to P782,100) as partial settlement of its short-term loan.

On April 8, 2022, the Parent Company availed a P10,000,000 fixed rate short-term loan from a local bank. Interest is payable quarterly and principal repayment shall be made upon maturity in April 2023. The proceeds shall be used to partially refinance the Parent Company's maturing debt obligations and for other general corporate purposes.

## 11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

| | *Note* | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| Trade | | **P17,888,328** | P15,357,138 |
| Non-trade | | **30,250,588** | 30,834,754 |
| Output VAT | | **9,165,470** | 7,508,289 |
| Accrued interest | *6, 10, 12* | **1,596,253** | 1,226,302 |
| Amounts owed to related parties | *13* | **924,597** | 732,736 |
| Withholding and other accrued taxes | | **360,013** | 370,176 |
| Premium on option liabilities | *20, 21* | **25,859** | 25,831 |
| Derivative liabilities not designated as cash flow hedge | *20, 21* | **9,850** | - |
| | | **P60,220,958** | P56,055,226 |

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Non-trade payables include liability relating to payables to contractors, power rate adjustments, concession payables and other payables to the Government excluding output VAT and withholding taxes.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers.

The methods and assumptions used to estimate the fair values of financial liabilities are discussed in Note 21.

## 12. Long-term Debt

Long-term debt consists of:

| | Note | March 31, 2022 (Unaudited) | December 31, 2021 (Audited) |
|---|---|---|---|
| **Bonds** | | | |
| *Parent Company* | | | |
| Peso-denominated: | | | |
| Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively | | **P29,882,336** | P29,857,106 |
| Fixed interest rate of 6.7500% maturing in 2023 | | **14,939,929** | 14,929,804 |
| Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively | | **19,924,945** | 19,915,621 |
| Fixed interest rate of 4.7575% and 5.1792% maturing in 2023 and 2026, respectively | | **8,810,825** | 8,807,704 |
| | | **73,558,035** | 73,510,235 |
| **Term Loans** | | | |
| *Parent Company* | | | |
| Peso-denominated: | | | |
| Fixed interest rate of 6.9265%, with maturities up to 2024 | | **14,347,060** | 14,341,187 |
| Fixed interest rate of 5.0000%, with maturities up to 2025 | | **4,928,792** | 4,925,442 |
| Foreign currency-denominated: | | | |
| Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2023 | | **25,742,308** | 25,336,985 |
| Floating interest rate based on LIBOR plus margin, maturing in 2026 | | **15,190,340** | 14,948,743 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 | | **2,547,397** | 2,504,152 |
| Floating interest rate based on LIBOR plus margin, maturing in 2024 (a) | | **10,069,149** | - |
| *Subsidiaries* | | | |
| Peso-denominated: | | | |
| Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (b) | | **37,042,710** | 37,626,133 |
| Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (c) | | **16,839,133** | 17,154,198 |
| Foreign currency-denominated: | | | |
| Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively | | **24,857,033** | 24,487,442 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 | | **8,208,969** | 8,086,926 |
| | | **159,772,891** | 149,411,208 |
| | *20, 21* | **233,330,926** | 222,921,443 |
| Less current maturities | | **63,733,615** | 30,185,418 |
| | | **P169,597,311** | P192,736,025 |

a. The amount represents the US$200,000 3-year term loan drawn by the Parent Company on January 21, 2022, from a facility agreement with a foreign bank executed on September 8, 2021. The initial loan amount under the facility agreement was increased from US$100,000 to US$200,000 on December 16, 2021. The loan is subject to a floating interest rate based on LIBOR plus margin and will mature in September 2024.

   The funds were used for capital expenditures relating to expansion projects and payment of other transaction related fees, costs and expenses of the facility.

b. On March 28, 2022, SCPC has partially paid a total of P602,500 of its P44,000,000, 12 year term loan, pursuant to the terms and conditions of its Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks.

c. The loan includes amount payable to Bank of Commerce (BOC), an associate of entities under common control, amounting to P2,567,232 and P2,615,936 as at March 31, 2022 and December 31, 2021, respectively (Note 13).

   On February 17, 2022, SMCPC has partially paid a total of P324,186 of its P21,300,000, 12 year term loan, pursuant to the terms and conditions of its OLSA with a syndicate of local banks.

Unamortized debt issue costs amounted to P2,182,662 and P2,062,866 as at March 31, 2022 and December 31, 2021, respectively. Accrued interest amounted to P1,572,813 and P1,199,171 as at March 31, 2022 and December 31, 2021, respectively. Interest expense amounted to P3,144,235 and P3,095,062 (including P247,142 and P25,683, capitalized as part of CPIP, respectively) for the periods ended March 31, 2022 and 2021, respectively (Note 9).

On April 25, 2022, the Parent Company redeemed the Series H Bonds, amounting to P13,844,860 upon its maturity pursuant to the terms and conditions of the bonds.

On April 29, 2022, MPPCL made principal repayments of loans from its Omnibus Refinancing Agreement (ORA) and Omnibus Expansion Facility Agreement (OEFA) amounting to US$23,550 and US$13,755, respectively.

*Valuation Technique for Peso-denominated Bonds*
The market value was determined using the market comparison technique. The fair values are based on Philippine Dealing and Exchange Corp. (PDEx). The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P77,309,221 and P78,768,298 as at March 31, 2022 and December 31, 2021, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 21).

The loans of SCPC and SMCPC are secured by real estate and chattel mortgages on all present and future assets, amounting to P44,100,000 and P21,325,000, respectively, and reserves of SCPC and SMCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCPC.

The loans of MPPCL obtained from its ORA and OEFA are secured by real estate and chattel mortgages on all present assets (purchased under its asset purchase agreement, and all its rights in a land lease agreement, with PSALM) and all future assets as defined in its loan agreements, amounting to US$665,000 and US$525,000, respectively.

The debt agreements of the Parent Company, SCPC, SMCPC and MPPCL impose a number of covenants including, but not limited to, maintenance of certain financial ratios throughout the duration of the term of the debt agreements. The terms and conditions of the debt agreements also contain negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries, SCPC, SMCPC and MPPCL to create or have outstanding any security interest upon or with respect to any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries, SCPC, SMCPC and MPPCL to secure any indebtedness, subject to certain exceptions.

As at March 31, 2022 and December 31, 2021, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| Balance at beginning of period | **P2,062,866** | P2,134,901 |
| Additions | **299,398** | 527,832 |
| Currency translation adjustments | **-** | 20,879 |
| Capitalized amount | **(49,812)** | (1,981) |
| Amortization | **(129,790)** | (618,765) |
| Balance at end of period | **P2,182,662** | P2,062,866 |

Repayment Schedule

The annual maturities of the long-term debts as at March 31, 2021 are as follows:

| | **Gross Amount** | | | | |
|---|---|---|---|---|---|
| **Year** | **US Dollar** | **Peso Equivalent of US Dollar** | **Peso** | **Debt Issue Costs** | **Net** |
| April 1, 2022 to March 31, 2023 | US$700,608 | P36,249,432 | P27,837,064 | P352,881 | P63,733,615 |
| April 1, 2023 to March 31, 2024 | 80,502 | 4,165,199 | 23,441,684 | 305,826 | 27,301,057 |
| April 1, 2024 to March 31, 2025 | 231,920 | 11,999,541 | 34,367,304 | 529,048 | 45,837,797 |
| April 1, 2025 to March 31, 2026 | 333,390 | 17,249,598 | 9,562,244 | 470,938 | 26,340,904 |
| April 1, 2026 to March 31, 2027 | 34,913 | 1,806,373 | 16,676,987 | 209,414 | 18,273,946 |
| April 1, 2027 and thereafter | 313,897 | 16,241,057 | 35,917,105 | 314,555 | 51,843,607 |
| | **US$1,695,230** | **P87,711,200** | **P147,802,388** | **P2,182,662** | **P233,330,926** |

Contractual terms of the Group’s interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 20.

## 13. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associate and joint ventures, purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. The Group requires approval of the BOD for certain limits on the amount and extent of transactions with related parties.

Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at March 31, 2022 (Unaudited) and December 31, 2021 (Audited):

| | Year | Revenues from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| SMC | **2022** | **P108,358** | **P172,306** | **P92,985** | **P31,675** | On demand or 30 days; | Unsecured; |
| | 2021 | 399,320 | 721,640 | 92,027 | 18,228 | non-interest bearing | no impairment |
| | **2022** | **-** | **-** | **132,277** | **-** | 1 year; | Unsecured; |
| | 2021 | - | - | 12,551 | - | non-interest bearing | no impairment |
| Entities under Common Control | **2022** | **1,285,199** | **783,883** | **1,258,815** | **6,107,422** | On demand or 30 days; | Unsecured; |
| | 2021 | 3,908,994 | 2,124,649 | 1,028,637 | 4,945,538 | non-interest bearing | no impairment |
| | **2022** | **-** | **-** | **-** | **492** | More than 1 year; | Unsecured |
| | 2021 | - | - | - | 492 | non-interest bearing | |
| Associates | **2022** | **183,480** | **3,860** | **1,066,636** | **29,490** | On demand or 30 days; | Unsecured; |
| | 2021 | 1,999,770 | 10,954 | 1,238,266 | 29,570 | non-interest bearing | no impairment |
| | **2022** | **1,829** | **-** | **129,158** | **-** | 9 years; | Unsecured; |
| | 2021 | 9,408 | - | 139,775 | - | interest bearing | no impairment |
| Joint Venture | **2022** | **7,673** | **-** | **9,618** | **-** | 30 days; | Unsecured; |
| | 2021 | 29,732 | 1,299,496 | 3,985 | 155,292 | non-interest bearing | no impairment |
| | **2022** | **1,319** | **-** | **147,041** | **-** | 92 days; | Unsecured; |
| | 2021 | 5,138 | - | 143,665 | - | interest bearing | no impairment |
| | **2022** | **13,156** | **-** | **1,039,477** | **-** | 10.5 years | Unsecured; |
| | 2021 | 18,840 | - | 1,026,815 | - | Interest bearing | no impairment |
| Associates and Joint Ventures | **2022** | **18,029** | **-** | **8,820** | **1,155** | 30 days; | Unsecured; |
| of Entities under Common Control | 2021 | 54,913 | - | 8,116 | 1,155 | non-interest bearing | no impairment |
| | **2022** | **-** | **49,887** | **-** | **2,567,232** | 12 years; | Secured |
| | 2021 | - | 211,738 | - | 2,615,936 | Interest bearing | |
| Others | **2022** | **873,417** | **-** | **742,294** | **51,604** | On demand or 30 days; | Unsecured; |
| | 2021 | 2,488,888 | - | 574,430 | 51,604 | non-interest bearing | no impairment |
| | **2022** | **P2,492,460** | **P1,009,936** | **P4,627,121** | **P8,789,070** | | |
| | 2021 | P8,915,003 | P4,368,477 | P4,268,267 | P7,817,815 | | |

a. Amounts owed by related parties consist of trade and other receivables, derivative assets and security deposits (Note 8).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC.

c. Amounts owed by an associate mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 8).

d. Amounts owed by a joint venture consists of interest bearing loans granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Note 8).

e. Amounts owed to an associate and joint venture of entities under common control pertains to an interest-bearing long-term loan of SMCPC to BOC, included as part of ‘Long-term debt” account in the consolidated statements of financial position (Note 12). The loan is secured by certain property, plant and equipment as at March 31, 2022 and December 31, 2021 (Note 9).

f. The compensation of key management personnel of the Group, by benefit type, are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| Short-term employee benefits | **P41,628** | P134,074 |
| Retirement cost | **3,880** | 15,520 |
| | **P45,508** | P149,594 |

There were no known transactions with parties that fall outside the definition “related parties” under PAS 24, *Related Party Disclosures*, but with whom the Group or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm’s length basis.

## 14. Distributions and Redemption of Capital Securities

Redemption of Undated Subordinated Capital Securities (USCS)

On February 26, 2021, the Parent Company completed the redemption of the US$300,000 USCS issued on August 26, 2015, equivalent to P14,581,500 on redemption date, pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders dated January 25, 2021. The redemption price paid includes the principal amount and any accrued but unpaid distributions up to (but excluding) the step-up date.

The difference between the price paid and cost of securities redeemed amounted to P758,001 and was recognized as part of the “Equity reserves” account in the consolidated statements of financial position.

The proceeds from the US$350,000 senior perpetual capital securities (SPCS) issued on December 15, 2020 was used in part for the redemption of the US$300,000 USCS.

In February 2021, the Parent Company paid distributions amounting to P703,037, respectively, to holders of the US$300,000 USCS issued in August 2015.

Distributions to Redeemable Perpetual Securities (RPS) Holder

In March 2022 and 2021, the Parent Company paid distributions amounting to P520,305 and P492,375, respectively, to the RPS Holder.

Distributions to SPCS Holders

On January 21, 2022 and 2021, the Parent Company paid distributions to holders of the US$600,000 SPCS issued in January 2020, amounting to P1,170,552 and P1,174,037, respectively.

In April 2022, the Company paid distributions to holders of the US$750,000 SPCS and US$800,000 SPCS amounting to US$26,250 and US$26,000, respectively.

## 15. Revenues

Revenues consist of:

| | | March 31 | |
|---|---|---|---|
| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
| Sale of power: | | | |
| Power generation and trading | | **P36,177,404** | P22,622,658 |
| Retail and other power-related services | | **6,816,504** | 4,710,518 |
| Other services | | **42,149** | 32,704 |
| | *5, 13* | **P43,036,057** | P27,365,880 |

Revenues from other services mainly pertain to operations and maintenance services provided by a subsidiary to an entity under common control (Note 13).

## 16. Cost of Power Sold

Cost of power sold consist of:

| | | March 31 | |
|---|---|---|---|
| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
| Coal, fuel oil and other consumables | *13* | **P19,137,422** | P5,327,348 |
| Power purchases | | **7,182,553** | 3,948,480 |
| Energy fees | *6* | **5,621,171** | 4,794,620 |
| Depreciation and amortization | *9* | **2,786,534** | 2,676,802 |
| Plant operations and maintenance, and other fees | | **1,079,384** | 983,046 |
| | *5* | **P35,807,064** | P17,730,296 |

## 17. Other Income - net

Other income (charges) consist of:

| | | March 31 | |
|---|---|---|---|
| | *Note* | **2022 (Unaudited)** | 2021 (Unaudited) |
| PSALM monthly fees reduction | | **P668,084** | P2,156,428 |
| Marked-to-market gain on derivatives | *21* | **609,842** | 35,030 |
| Management, shared services fees and others | *13* | **145,759** | 32,775 |
| Construction revenue | | **34,386** | 7,927 |
| Reversal of allowance on other receivables | *8* | **11,462** | 11,463 |
| Construction cost | | **(34,386)** | (7,927) |
| Foreign exchange losses - net | *20* | **(357,633)** | (161,301) |
| Miscellaneous income | | **7,483** | 8,870 |
| | | **P1,084,997** | P2,083,265 |

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs pass through the profit or loss before it is capitalized as concession rights.

Miscellaneous income pertains mainly to rent income.

## 18. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

The components of income tax expense (benefit) are as follows:

| | March 31 | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| Current | **P166,684** | P453,694 |
| Deferred | **1,246,642** | 994,122 |
| Adjustments due to CREATE Act | **-** | (3,151,916) |
| | **P1,413,326** | (P1,704,100) |

The CREATE Act, which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021. One of the key provisions of the CREATE Act is an immediate 5% to 10% point cut in the regular corporate income tax rate (RCIT) and 1% point cut in the minimum corporate income tax (MCIT) rate starting July 1, 2020. Accordingly, current and deferred taxes for the periods ended March 31, 2022 and 2021 were computed and measured using the applicable income tax rate (i.e., 25% or 20% RCIT, 1% MCIT) for financial reporting purposes.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up in the first quarter of 2021, are as follows:

| | **Increase (Decrease)** |
|---|---|
| **ASSETS** | |
| Prepaid expenses and other current assets | **P189,260** |
| Investments and advances - net | **1,545** |
| Deferred tax assets | **(282,395)** |
| | **(P91,590)** |
| **LIABILITIES AND EQUITY** | |
| Income tax payable | **(P997)** |
| Deferred tax liabilities | **(3,243,994)** |
| Equity reserves | **(60)** |
| Retained earnings | **3,151,043** |
| Non-controlling interests | **2,418** |
| | **(P91,590)** |
| Equity in net losses of associate and joint ventures | **(P1,545)** |
| Provision for Income Tax: | |
| Current | **(190,257)** |
| Deferred | **(2,961,659)** |
| | **(3,151,916)** |
| | **(P3,153,461)** |
| Net Income Attributable to | |
| Equity holders of the Parent Company | **P3,151,043** |
| Non-controlling interests | **2,418** |
| | **P3,153,461** |

## 19. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is computed as follows:

| | March 31 | |
|---|---|---|
| | **2022 (Unaudited)** | 2021 (Unaudited) |
| Net income attributable to equity holders of the Parent Company | **P1,895,982** | P7,786,903 |
| Distributions for the period to: | | |
| USCS holders | **-** | (234,346) |
| RPS holder | **(521,168)** | (492,460) |
| SPCS holders | **(3,608,639)** | (3,096,034) |
| Net income (loss) attributable to common shareholders of the Parent Company(a) | **(2,233,825)** | 3,964,063 |
| Weighted average number of common shares outstanding (in thousands) (b) | **1,250,004** | 1,250,004 |
| Basic/Diluted Earnings (Loss) Per Share (a/b) | **(P1.79)** | P3.17 |

As at March 31, 2022 and 2021, the Parent Company has no dilutive debt or equity instruments.

The P1.79 negative basic/diluted earnings per common share resulted primarily from the interest costs and other financing charges (including distributions to perpetual capital securities) for the Group's various bridge-type financing activities undertaken to expedite the ongoing construction of its several power plant expansion projects intended to significantly increase the capacities of and modernize the existing power generation portfolio of the Group. These expansion projects, including, among others, the 1,000 MW Battery Energy Storage facilities, 600 MW Mariveles CFB Coal-fired Power Plant, 2 x 350 MW Masinloc Power Generation Units 4 and 5, and the 1,313.1 MW Batangas Combined Cycle Gas Power Plant, are expected to go into commercial operations in the next 4 to 5 years. These projects are contracted or expected to be contracted to creditworthy offtakers such as Meralco and the National Grid Corporation of the Philippines, and should contribute significantly to the profitability of the Group following their commercial operations in the coming years.

## 20. 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:

- Liquidity Risk
- Credit Risk
- Market Risk (Interest Rate Risk, Foreign Currency Risk and Commodity Price Risk)

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, restricted cash, noncurrent receivables, loans payable, long-term debt and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group, such as swaps and forwards, are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Philippine SEC and/or the PDEx.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

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:

| **March 31, 2022 (Unaudited)** | **Carrying Amount** | **Contractual Cash Flow** | **1 Year or Less** | **>1 Year - 2 Years** | **>2 Years - 5 Years** | **Over 5 Years** |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P59,023,294** | **P59,023,294** | **P59,023,294** | **P -** | **P -** | **P -** |
| Trade and other receivables - net* | **57,441,479** | **57,441,479** | **57,441,479** | **-** | **-** | **-** |
| Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account) | **662,639** | **662,639** | **662,639** | **-** | **-** | **-** |
| Derivative asset designated as cash flow hedge (included under "Prepaid expenses and other current assets" account) | **46,866** | **46,866** | **46,866** | **-** | **-** | **-** |
| Noncurrent receivables (included under "Other noncurrent assets" account; including current portion) | **1,574,567** | **2,168,835** | **49,586** | **215,984** | **198,435** | **1,704,830** |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **3,913,547** | **3,913,547** | **2,023,767** | **550,045** | **15** | **1,339,720** |
| **Financial Liabilities** | | | | | | |
| Loans payable | **776,100** | **789,439** | **789,439** | **-** | **-** | **-** |
| Accounts payable and accrued expenses (including Premium on option liabilities - current)* | **50,682,373** | **50,687,190** | **50,687,190** | **-** | **-** | **-** |
| Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account) | **9,850** | **9,850** | **9,850** | **-** | **-** | **-** |
| Long-term debt - net (including current maturities) | **233,330,926** | **278,174,903** | **75,368,952** | **36,577,368** | **106,804,511** | **59,424,072** |
| Lease liabilities (including current portion) | **73,209,361** | **87,447,519** | **23,208,692** | **20,828,885** | **26,067,552** | **17,342,390** |
| Other noncurrent liabilities (including current portion of Concession liability) | **4,243,535** | **4,248,683** | **8,400** | **343,714** | **3,515,934** | **380,635** |

**Excluding statutory receivables and payables*

| December 31, 2021 (Audited) | Carrying Amount | Contractual Cash Flow | 1 Year or Less | >1 Year - 2 Years | >2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P67,690,151 | P67,690,151 | P67,690,151 | P - | P - | P - |
| Trade and other receivables - net* | 47,223,910 | 47,223,910 | 47,223,910 | - | - | - |
| Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account) | 111,932 | 111,932 | 111,932 | - | - | - |
| Derivative asset designated as cash flow hedge (included under "Other noncurrent assets" account) | 42,173 | 42,173 | - | 42,173 | - | - |
| Noncurrent receivables (included under "Other noncurrent assets" account; including current portion) | 1,560,209 | 2,126,273 | 54,194 | 157,764 | 48,394 | 1,865,921 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | 4,430,396 | 4,430,396 | 2,550,607 | 547,407 | 15 | 1,332,367 |
| Financial Liabilities | | | | | | |
| Loans payable | 1,529,970 | 1,541,923 | 1,541,923 | - | - | - |
| Accounts payable and accrued expenses* | 48,147,723 | 48,147,723 | 48,147,723 | - | - | - |
| Long-term debt - net (including current maturities) | 222,921,443 | 275,616,650 | 33,320,507 | 77,621,184 | 100,357,971 | 64,316,988 |
| Lease liabilities (including current portion) | 78,213,359 | 95,868,508 | 25,301,773 | 20,567,920 | 29,382,548 | 20,616,267 |
| Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities) | 4,146,692 | 4,592,768 | 38,721 | 777,733 | 3,403,186 | 373,128 |

**Excluding statutory receivables and payables*

<u>Credit Risk</u>

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

*Trade and Other Receivables*
The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of expected losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk, without considering the effects of other risk mitigation techniques, is presented below:

| | ***Note*** | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | *7* | **P59,021,291** | P67,688,162 |
| Trade and other receivables - net* | *8* | **57,441,479** | 47,223,910 |
| Derivative assets not designated as cash flow hedge | | **662,639** | 111,932 |
| Derivative assets designated as cash flow hedge | | **46,866** | 42,173 |
| Noncurrent receivables | | **1,574,567** | 1,560,209 |
| Restricted cash | | **3,913,547** | 4,430,396 |
| | | **P122,660,389** | P121,056,782 |

**Excluding statutory receivables*

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Financial assets that are credit-impaired are separately presented.

| | Financial Assets at Amortized Cost | | | | | |
|---|---|---|---|---|---|---|
| **March 31, 2022 (Unaudited)** | **12-month ECL** | **Lifetime ECL - not credit impaired** | **Lifetime ECL - credit impaired** | **Financial Assets at FVPL** | **Financial Assets at FVOCI** | **Total** |
| Cash and cash equivalents (excluding cash on hand) | **P59,021,291** | **P -** | **P -** | **P -** | **P -** | **P59,021,291** |
| Trade and other receivables | **-** | **57,441,479** | **2,680,821** | **-** | **-** | **60,122,300** |
| Derivative assets not designated as cash flow hedge | **-** | **-** | **-** | **662,639** | **-** | **662,639** |
| Derivative asset designated as cash flow hedge | **-** | **-** | **-** | **-** | **46,866** | **46,866** |
| Noncurrent receivables (including current portion) | **-** | **1,574,567** | **-** | **-** | **-** | **1,574,567** |
| Restricted cash | **3,913,547** | **-** | **-** | **-** | **-** | **3,913,547** |
| | **P62,934,838** | **P59,016,046** | **P2,680,821** | **P662,639** | **P46,866** | **P125,341,210** |

| | Financial Assets at Amortized Cost | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2021 (Audited) | 12-month ECL | Lifetime ECL - not credit impaired | Lifetime ECL - credit impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash and cash equivalents (excluding cash on hand) | P67,688,162 | P - | P - | P - | P - | P67,688,162 |
| Trade and other receivables | - | 47,223,910 | 2,672,082 | - | - | 49,895,992 |
| Derivative assets not designated as cash flow hedge | - | - | - | 111,932 | - | 111,932 |
| Derivative asset designated as cash flow hedge | - | - | - | - | 42,173 | 42,173 |
| Noncurrent receivables (including current portion) | - | 1,560,209 | - | - | - | 1,560,209 |
| Restricted cash | 4,430,396 | - | - | - | - | 4,430,396 |
| | P72,118,558 | P48,784,119 | P2,672,082 | P111,932 | P42,173 | P123,728,864 |

Receivables that are not credit impaired are considered high grade since the customers or counterparties have strong financial capacity and business performance and with the lowest default risk.

The aging of trade and other receivables (excluding statutory receivables) is as follows:

| | **March 31, 2022 (Unaudited)** | | | | December 31, 2021 (Audited) | | | |
|---|---|---|---|---|---|---|---|---|
| | **Trade** | **Non-trade** | **Amounts Owed by Related Parties** | **Total** | Trade | Non-trade | Amounts Owed by Related Parties | Total |
| Current | **P25,691,981** | **P28,869** | **P1,988,813** | **P27,709,663** | P17,990,189 | P1,074,987 | P1,885,024 | P20,950,200 |
| Past due: | | | | | | | | |
| 1-30 days | **3,427,600** | **165,377** | **528,344** | **4,121,321** | 4,601,818 | 185,891 | 500,031 | 5,287,740 |
| 31-60 days | **1,737,647** | **144,575** | **10,876** | **1,893,098** | 1,748,212 | 215,610 | 40,776 | 2,004,598 |
| 61-90 days | **951,648** | **291,119** | **40,284** | **1,283,051** | 1,504,672 | 14,848 | 31,752 | 1,551,272 |
| Over 90 days | **16,287,637** | **8,232,944** | **594,586** | **25,115,167** | 11,251,529 | 8,230,403 | 620,250 | 20,102,182 |
| | **P48,096,513** | **P8,862,884** | **P3,162,903** | **P60,122,300** | P37,096,420 | P9,721,739 | P3,077,833 | P49,895,992 |

Past due trade receivables more than 30 days pertain mainly to generation charges and output VAT. The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period. There are no significant changes in the credit quality of the counterparties during the period.

The Group's cash and cash equivalents, derivative assets and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 39% and 41% of the Group's total revenues for the periods ended March 31, 2022 and 2021, respectively.

The Group does not execute any credit guarantee in favor of any counterparty.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| **March 31, 2022 (Unaudited)** | **< 1 Year** | **1-2 Years** | **>2-3 Years** | **>3-4 Years** | **>4-5 Years** | **>5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | | |
| Philippine peso-denominated | **P27,837,064** | **P23,441,684** | **P34,367,304** | **P9,562,244** | **P16,676,987** | **P35,917,105** | **P147,802,388** |
| Interest rate | **5.0000% to 7.7521%** | **4.7575% to 7.7521%** | **5.0000% to 7.7521%** | **5.0000% to 7.7521%** | **5.1792% to 7.7521%** | **6.2836% to 7.7521%** | |
| Foreign currency-denominated (expressed in Philippine peso) | **7,788,086** | **1,187,407** | **1,242,588** | **1,299,812** | **1,359,080** | **12,219,462** | **25,096,435** |
| Interest rate | **4.7776% to 5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | |
| **Floating Rate** | | | | | | | |
| Foreign currency-denominated (expressed in Philippine peso) | **28,461,346** | **2,977,792** | **10,756,953** | **15,949,786** | **447,293** | **4,021,595** | **62,614,765** |
| Interest rate | **LIBOR + Margin** | **LIBOR + Margin** | **LIBOR + Margin** | **LIBOR + Margin** | **LIBOR + Margin** | **LIBOR + Margin** | |
| | **P64,086,496** | **P27,606,883** | **P46,366,845** | **P26,811,842** | **P18,483,360** | **P52,158,162** | **P235,513,588** |

| December 31, 2021 (Audited) | < 1 Year | 1-2 Years | >2-3 Years | >3-4 Years | >4-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate | | | | | | | |
| Philippine peso-denominated | P27,779,564 | P23,342,184 | P34,309,804 | P9,504,744 | P16,589,154 | P37,203,624 | P148,729,074 |
| Interest rate | 5.0000% to 7.7521% | 4.7575% to 7.7521% | 5.0000% to 7.7521% | 5.0000% to 7.7521% | 5.1792% to 7.7521% | 6.2836% to 7.7521% | |
| Foreign currency-denominated (expressed in Philippine peso) | 1,994,622 | 6,852,327 | 1,224,792 | 1,281,197 | 1,339,616 | 12,044,460 | 24,737,014 |
| Interest rate | 4.7776% to 5.5959% | 4.7776% to 5.5959% | 5.5959% | 5.5959% | 5.5959% | 5.5959% | |
| Floating Rate | | | | | | | |
| Foreign currency-denominated (expressed in Philippine peso) | 660,258 | 30,328,621 | 403,096 | 421,660 | 15,740,587 | 3,963,999 | 51,518,221 |
| Interest rate | LIBOR + Margin | LIBOR + Margin | LIBOR + Margin | LIBOR + Margin | LIBOR + Margin | LIBOR + Margin | |
| | P30,434,444 | P60,523,132 | P35,937,692 | P11,207,601 | P33,669,357 | P53,212,083 | P224,984,309 |

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 P156,537 and P515,182 for the period ended March 31, 2022 and for the year ended December 31, 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using derivative instruments, such as foreign currency forwards and call spread swaps, to manage its foreign currency risk exposure.

Short-term currency forward contracts (non-deliverable) and long-term call spread swaps are entered into to manage foreign currency risks relating to foreign currency-denominated obligations and long-term borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and

- changes in the timing of the hedged transactions.

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

| | | March 31, 2022 (Unaudited) | | December 31, 2021 (Audited) | |
|---|---|---|---|---|---|
| | ***Note*** | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | | |
| Cash and cash equivalents | *7* | **US$340,826** | **P17,634,325** | US$582,496 | P29,706,729 |
| Trade and other receivables | *8* | **77,999** | **4,035,660** | 236,449 | 12,058,685 |
| | | **418,825** | **21,669,985** | 818,945 | 41,765,414 |
| **Liabilities** | | | | | |
| Loans payable | *10* | **15,000** | **776,100** | 30,000 | 1,529,970 |
| Accounts payable and accrued expenses | *11* | **151,779** | **7,853,020** | 590,308 | 30,105,121 |
| Long-term debt (including current maturities) | *12* | **1,695,230** | **87,711,200** | 1,495,230 | 76,255,235 |
| Lease liabilities (including current portion) | *6* | **694,117** | **35,913,636** | 762,458 | 38,884,578 |
| Other noncurrent liabilities | | **-** | **-** | 67,749 | 3,455,137 |
| | | **2,556,126** | **132,253,956** | 2,945,745 | 150,230,041 |
| **Net Foreign Currency-denominated Monetary Liabilities** | | **US$2,137,301** | **P110,583,971** | US$2,126,800 | P108,464,627 |

The Group reported net losses on foreign exchange amounting to P357,633 and P161,301 for the periods ended March 31, 2022 and 2021, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 17).

These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

| | **US Dollar to Philippine Peso** |
|---|---|
| **March 31, 2022** | **P51.740** |
| December 31, 2021 | 50.999 |
| March 31, 2021 | 48.530 |
| December 31, 2020 | 48.023 |

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

| | **P1 Decrease in the US Dollar Exchange Rate** | | **P1 Increase in the US Dollar Exchange Rate** | |
|---|---|---|---|---|
| **March 31, 2022 (Unaudited)** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P332,491)** | **(P331,154)** | **P332,491** | **P331,154** |
| Trade and other receivables | **(77,051)** | **(60,774)** | **77,051** | **60,774** |
| | **(409,542)** | **(391,928)** | **409,542** | **391,928** |
| Loans payable | **15,000** | **11,775** | **(15,000)** | **(11,775)** |
| Accounts payable and accrued expenses | **148,986** | **118,121** | **(148,986)** | **(118,121)** |
| Long-term debt (including current maturities) | **1,695,230** | **1,523,423** | **(1,695,230)** | **(1,523,423)** |
| Lease liabilities (including current portion) | **694,117** | **520,544** | **(694,117)** | **(520,544)** |
| | **2,553,333** | **2,173,863** | **(2,553,333)** | **(2,173,863)** |
| | **P2,143,791** | **P1,781,935** | **(P2,143,791)** | **(P1,781,935)** |

| December 31, 2021 (Audited) | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P574,118) | (P548,884) | P574,118 | P548,884 |
| Trade and other receivables | (236,398) | (178,079) | 236,398 | 178,079 |
| | (810,516) | (726,963) | 810,516 | 726,963 |
| Loans payable | 30,000 | 22,500 | (30,000) | (22,500) |
| Accounts payable and accrued expenses | 590,013 | 444,524 | (590,013) | (444,524) |
| Long-term debt (including current maturities) | 1,495,230 | 1,325,423 | (1,495,230) | (1,325,423) |
| Lease liabilities (including current portion) | 762,458 | 571,843 | (762,458) | (571,843) |
| Other noncurrent liabilities | 67,749 | 50,841 | (67,749) | (50,841) |
| | 2,945,450 | 2,415,131 | (2,945,450) | (2,415,131) |
| | P2,134,934 | P1,688,168 | (P2,134,934) | (P1,688,168) |

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group, through SMC and the Parent Company, enters into commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

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

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, SPCS, RPS and USCS (Note 12).

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

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

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

## 21. Financial Assets and Financial Liabilities

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

| | **March 31, 2022 (Unaudited)** | | December 31, 2021 (Audited) | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P59,023,294** | **P59,023,294** | P67,690,151 | P67,690,151 |
| Trade and other receivables - net* | **57,441,479** | **57,441,479** | 47,223,910 | 47,223,910 |
| Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account) | **662,639** | **662,639** | 111,932 | 111,932 |
| Derivative asset designated as cash flow hedge (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **46,866** | **46,866** | 42,173 | 42,173 |
| Noncurrent receivables (included under "Other noncurrent assets" account; including current portion) | **1,574,567** | **1,574,567** | 1,560,209 | 1,560,209 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts) | **3,913,547** | **3,913,547** | 4,430,396 | 4,430,396 |
| | **P122,662,392** | **P122,662,392** | P121,058,771 | P121,058,771 |
| **Financial Liabilities** | | | | |
| Loans payable | **P776,100** | **P776,100** | P1,529,970 | P1,529,970 |
| Accounts payable and accrued expenses* | **50,682,373** | **50,682,373** | 48,147,723 | 48,147,723 |
| Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account) | **9,850** | **9,850** | - | - |
| Long-term debt - net (including current maturities) | **233,330,926** | **247,016,094** | 222,921,443 | 242,668,663 |
| Lease liabilities (including current portion) | **73,209,361** | **73,209,361** | 78,213,359 | 78,213,359 |
| Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities) | **4,243,535** | **4,243,535** | 4,146,692 | 4,146,692 |
| | **P362,252,145** | **P375,937,313** | P354,959,187 | P374,706,407 |

**Excluding statutory receivables and payables*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Noncurrent Receivables, and Restricted Cash.* The carrying amounts of cash and cash equivalents, and trade and other receivables approximate their fair values primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and restricted cash, the carrying amounts approximate their fair values, since the effect of discounting is not considered material.

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs. The fair values of the derivatives have been categorized as Level 2 in the fair value hierarchy.

*Loans Payable and Accounts Payable and Accrued Expenses (excluding statutory payables and Derivative Liabilities).* The carrying 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.

*Lease Liabilities.* The fair value is based on the present value of expected cash flows using the applicable discount rates based on current market rates of similar instruments. The fair value of lease liabilities has been categorized as Level 2 in the fair value hierarchy.

*Long-term Debt and Other Noncurrent Liabilities*. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.13% to 5.74% and 0.99% to 4.74% as at March 31, 2022 and December 31, 2021, respectively. Discount rates used for foreign currency-denominated loans range from 0.45% to 2.45% and 0.25% to 1.50% as at March 31, 2022 and December 31, 2021, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of peso-denominated bonds has been categorized as Level 1 and interest-bearing fixed-rate loans, lease liabilities and other noncurrent liabilities have been categorized as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risks. The portfolio is a mixture of instruments including forwards and swaps.

Derivative Instruments Accounted for as Cash Flow Hedges

*Call Spread Swaps*

As at March 31, 2022 and December 31, 2021, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$60,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2023. As at March 31, 2022, the positive fair value of the call spread swaps, included under "Prepaid expense and other current assets" account amounted to P46,866. As at December 31, 2021, the positive fair value of the call spread swaps, included under "Other noncurrent assets" account amounted to P42,173.

The table below provides for a reconciliation of the components of equity and other comprehensive income items, net of tax, resulting from cash flow hedge accounting:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| **Beginning balance** | **P8,809** | (P47,153) |
| Changes in fair value of derivatives | **4,693** | 23,285 |
| Amount reclassified to profit or loss due to interest expense and other financing charges | **6,830** | 32,677 |
| **Ending balance** | **P20,332** | P8,809 |

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the period ended March 31, 2022 and for the year ended December 31, 2021.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards and swaps, to manage its exposure on foreign currency and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

*Freestanding Derivatives*

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

*Cash Flow Hedge.* When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

*Embedded Derivatives*

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

However, an embedded derivative is not separated if the host contract is a financial asset.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

Derivative Instruments not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

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

*Currency Forwards*
The Group entered into short-term foreign currency forward contracts with aggregate notional amount of US$70,000 and US$50,000 as at March 31, 2022 and December 31, 2021, respectively. The positive (negative) fair value of these currency forwards amounted to (P9,850) and P49,775 as at March 31, 2022 and December 31, 2021, respectively.

*Commodity Swaps*
The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2022. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 102,000 metric tons and 96,000 metric tons as at March 31, 2022 and December 31, 2021, respectively. The positive fair value of these commodity swaps amounted to P662,639 and P62,157 as at March 31, 2022 and December 31, 2021, respectively.

The Group recognized marked-to-market gains from freestanding derivatives amounting to P609,842 and P35,030 for the periods ended March 31, 2022 and 2021, respectively (Note 17).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

| | **March 31, 2022 (Unaudited)** | December 31, 2021 (Audited) |
|---|---|---|
| Beginning balance | **P154,105** | P9,299 |
| Net change in fair value of derivatives: | | |
| Not designated as accounting hedge | **609,842** | 278,397 |
| Designated as accounting hedge | **4,693** | 23,285 |
| | **768,640** | 310,981 |
| Less fair value of settled instruments | **68,985** | 156,876 |
| Ending balance | **P699,655** | P154,105 |

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.

## 22. Other Matters

a. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined.

*i. Temporary Restraining Order ("TRO") Issued to Meralco*

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction ("Petition") filed in the Supreme Court ("SC") by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the SC issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the SC issued an order treating the Counter-Petition as in the nature of a third party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the SC.

ii. *Energy Regulatory Commission ("ERC") Order Voiding WESM Prices*
Relative to the above-cited Petition, on December 27, 2013, the Department of Energy ("DOE"), ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "March 3, 2014 Order"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC and MPPCL filed various pleadings requesting ERC for the reconsideration of the March 3, 2014 Order. Other generators also requested the SC to stop the implementation of the March 3, 2014 Order.

On June 26, 2014, SMEC, SPPC and SPDC filed before the Court of Appeals ("CA") a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 2014, March 27, 2014, and May 9, 2014 ("the 2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the CA on December 12, 2014.

After consolidating the cases, the CA, in its decision dated November 7, 2017 (the “November 7, 2017 Decision”), granted the Petition for Review filed by SMEC, SPPC, SPDC and MPPCL declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a resolution dated March 22, 2018 (the “March 22, 2018 Resolution”), the CA denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the CA dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration while SMEC, SPPC and SPDC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the CA issued an Omnibus Resolution affirming the November 7, 2017 Decision and the March 22, 2018 Resolution.

The intervenors thereafter filed petitions for certiorari before the SC, First Division. Each were denied by the SC through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the CA committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners’ motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners’ motions for reconsideration of the denial of their respective motions to intervene.

MPPCL filed on January 22, 2020, while SMEC, SPPC and SPDC filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the SC. In its petition, the ERC appealed the November 7, 2017 Decision and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

PEMC also filed a Motion to Admit Comment and Comment on the ERC’s Petition for Review both dated March 12, 2020.

In a Resolution dated February 10, 2020, the SC directed the respondents to file their respective Comments on the Petition for Review filed by Meralco (“Meralco Petition”). SMEC, SPPC and SPDC, received, through counsel, a copy of the Resolution on June 25, 2020. SMEC, SPPC and SPDC filed on July 15, 2020, while MPPCL filed on July 16, 2020, their Comments on the Meralco Petition, all within the period of extension granted by the SC.

On July 9, 2020, AP Renewables Inc. (“APRI”) filed a Motion to Consolidate praying for the SC to direct the consolidation of the foregoing case with ERC v. SMEC, et. al. (SC-G.R. Nos. 246621-30, First Division). The ERC, through the Office of the Solicitor General, filed a Manifestation and Motion dated September 15, 2020, agreeing with APRI but deferring to the judgment of the SC on the matter.

On July 21, 2020, Meralco filed a Motion for Leave to File and Admit the Attached Manifestation with Manifestation, both of even date, (collectively, "Meralco Manifestation"), praying that the SC apply the ruling in the case of PSALM v. PEMC (G.R. No. 190199, March 11, 2020) in resolving the instant case. The SC has not yet issued an order to respondents to comment on said Meralco Manifestation.

On September 22, 2020, SMEC, SPPC and SPDC filed motions to admit their Comment on the Meralco Manifestation.

Entries of judgment have been issued by the SC certifying that the resolutions denying the Petitions for Review on Certiorari filed by various intervenors against SMEC, SPPC, SPDC and MPPCL, among others, have become final and executory.

In a Resolution dated November 4, 2020, the SC directed the consolidation of the separate petitions filed by the ERC and Meralco considering that said cases involve the same parties, raise the same issues, and assail the same decision and resolution, and the transfer of the Meralco Petition to the third division of the SC handling the petition by the ERC.

The ERC has also filed its Consolidated Reply to the comments on its petition dated November 18, 2020. To date, the case remains pending with the SC.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,321,785, plus interest.

*iii. Generation Payments to PSALM*

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain its position that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the performance bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court ("RTC") of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016 (the "June 27, 2016 RTC Order"), the RTC denied PSALM's: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceeding with the termination of the Illijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order dated October 19, 2015, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to the June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the CA seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders". The CA, however, denied the petition filed by PSALM in its decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the CA upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA Agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the "2018 CA Resolution"), the CA denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the SC praying for the reversal and nullification of the CA Decision and the 2018 CA Resolution. Said petition was denied by the SC in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution") due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the CA committed any reversible error in the challenged decision and resolution as to warrant the exercise of the CA's discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the SC in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgement issued by the SC on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City.

SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction with the CA, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although, the CA dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "2019 CA Resolution"), the CA subsequently granted the Motion for Reconsideration filed by PSALM in response to the 2019 CA Resolution. In a Resolution dated February 24, 2020, the CA required PSALM to revise its petition and send the revised copies to SPPC and Meralco.

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion citing SPPC's letter dated March 6, 2020 informing PSALM of its intention to advance the full settlement of the Monthly Payments due for the period March 26, 2020 until the end of the IPPA Agreement on June 26, 2022. SPPC stated that given this intention, PSALM can no longer assert that it stands to suffer injury in the form of reduction in expected cash or that the Government would be exposed to financial risk.

PSALM filed several pleadings: (1) Urgent Ex-Parte Motion for Early Resolution of its Motion for Leave to File Amended Answer Ad Cautelam dated May 28, 2020; (b) Motion for Reconsideration of the RTC's Order of February 14, 2020, which did not allow PSALM to present witnesses in support of its Motion to Dissolve the Writ of Preliminary Injunction and directed the parties to submit pleadings and documents in support of their respective positions; and (3) Reply to SPPC's Opposition to its Motion to Dissolve the Writ of Preliminary Injunction. On July 6, 2020, SPPC filed an Opposition to the Motion for Reconsideration filed by PSALM on the RTC's Order of February 14, 2020.

PSALM also filed a Reply to SPPC's Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction. In August 2020, PSALM also filed a Reply to the Supplemental Opposition to the Motion Ad Cautelam to Dissolve the Writ of Preliminary Injunction. On September 14, 2020, SPPC filed a Motion to Admit Consolidated Rejoinder and Consolidated Rejoinder. The Consolidated Rejoinder addresses both PSALM's Reply to the Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction and its Reply to SPPC's Supplemental Opposition to the same motion.

In September 2020, PSALM filed an Urgent Ex Parte Motion for Early Resolution of its Motion for Leave to File the Amended Answer Ad Cautelam.

In an Order dated November 17, 2020, the RTC considered as submitted for resolution, PSALM's Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction.

In an Order dated November 27, 2020, the RTC denied PSALM's Motion for Leave to File Amended Answer Ad Cautelam. On January 29, 2021, PSALM filed a Motion for Reconsideration. SPPC filed an Opposition and PSALM filed a Reply.

On January 15, 2021, SPPC filed a Motion for Summary Judgment, praying that judgment be rendered in favor of SPPC on all its causes of action based on the pleadings, affidavits, and admissions on file. PSALM has filed an Opposition to the motion.

In an Order dated March 23, 2021 (the "March 23, 2021 RTC Order"), the RTC denied PSALM's Motion for Reconsideration of the Order of November 27, 2020, which denied the Motion for Leave to File Amended Answer Ad Cautelam. In the same Order, the RTC also denied SPPC's Motion for Summary Judgment and referred the case to mediation.

The mediation scheduled on April 19, 2021, was not held because the SC directed the closure of courts and related offices, including the Philippine Mediation Center, for the duration of the enhanced community quarantine ("ECQ") and modified enhanced community quarantine.

In an Order dated May 18, 2021, the RTC recalled the March 23, 2021 RTC Order, where it set the case for mediation given that the parties have already exhausted both court-annexed mediation and judicial dispute resolution and scheduled the pre-trial of the case on June 18, 2021. The pre-trial was however cancelled and no new schedule was provided by the RTC. SPPC filed a motion to postpone the pre-trial on the ground that it still has a pending Motion for Reconsideration of the order denying its Motion for Summary Judgement. PSALM filed a Motion for Leave to File a Supplemental Pre-trial Brief, purportedly for purposes of complying with Section 6, Rule 18 of the Amended Rules of Civil Procedure.

On June 21, 2021, SPPC received PSALM's Opposition to its Motion for Reconsideration of the Order denying the Motion for Summary Judgment. On June 25, 2021, SPPC filed a Motion for Leave to File Reply and Reply to PSALM's Opposition. On July 19, 2021, PSALM moved for reconsideration of the court's postponement of the pre-trial and filed a Rejoinder to SPPC's Reply.

The RTC suspended pre-trial proceedings until after its resolution of SPPC's Motion for Reconsideration of the denial of the Motion for Summary Judgment.

In June 2021, PSALM also filed a petition for certiorari under Rule 65 of the rules of Court to annul the trial court's Order of November 27, 2020, which denied PSALM's Motion for Leave to File Amended Answer, and the 23 March 2021 RTC Order, which denied PSALM's Motion for Reconsideration of the Order of denial. The petition has been docketed as CA-G.R. SP No. 169443.

On August 5, 2021, the CA issued a Resolution, directing SPPC to file a Comment on the petition in CA-G.R. SP No. 169443 within 10 days, and PSALM to file a Reply within five days from its receipt of the Comment. Since the courts in the National Capital Region were physically closed until October 15, 2021 because of the quarantine, SPPC was only able to file the Comment by registered mail on October 6, 2021. PSALM filed its reply on October 29, 2021.

On September 13, 2021, the RTC denied SPPC's motion for partial reconsideration of the March 23, 2021 RTC Order and scheduled the pre-trail of the case on November 19, 2021.

The case underwent pre-trial on November 19, 2021 while the presentation of evidence is scheduled on January 28, February 18, and March 4 and March 25, 2022. The January 28, 2022 hearing by video conferencing was cancelled due to the physical closure of courts in the National Capital Region while the February 18, 2022 hearing, was cancelled upon the motion of the counsel for PSALM.

On December 7, 2021, the RTC denied the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction filed by PSALM. PSALM filed a Motion for Reconsideration to which SPPC has filed an Opposition.

The presentation of evidence has not yet commenced because the parties had to finalize and submit their Joint Stipulation of Facts. The next hearing will be held on May 6, 2022.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in June 2022.

iv. *Criminal Cases*

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act (“RA No. 3019”), before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC’s Ilijan IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$60,000. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

In a Resolution dated March 10, 2021, which was approved by the Ombudsman on February 15, 2022, the Graft Investigation and Prosecution Officer (“GIPO”) dismissed the criminal complaint against one of the Respondents.

In a Decision of the same date, approved by the Ombudsman also on February 15, 2022, the GIPO also dismissed the administrative complaint against one of the Respondents.

On March 21, 2022, SPPC filed a Motion for Reconsideration of the resolution dismissing the criminal complaint.

SMEC
On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and TeaM Sual Corporation, relating to the illegal grant of the so-called “excess capacity” of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file an Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of the RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ’s Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

v. *Civil Cases*
SMEC
On June 17, 2016, SMEC filed with the RTC, Pasig City (“RTC Pasig”) a civil complaint for consignation against PSALM arising from PSALM’s refusal to accept SMEC’s remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant (“Sale of the Excess Capacity”). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and to Allow Future Consignation without Tender (“Omnibus Motion”). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint and finding that the ERC has the technical competence to determine the proper interpretation of “contracted capacity”, the fairness of the settlement formula and the legality of the memorandum of agreement.

On July 4, 2018, SMEC filed its Motion for Reconsideration (“MR”) to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM’s Comment on August 13, 2018. The motion has not yet been resolved as of date.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case.

On December 13, 2019 the case was re-raffled to RTC Branch 268. On February 7, 2020, a clarificatory hearing was held and Branch 268 noted the pending incidents, which are: (a) SMEC's Motion for Partial Reconsideration and Supplemental Motion for Reconsideration of the Order dated May 22, 2018; (b) SMEC's two Motions to Admit Supplemental Complaint; and (c) PSALM's Motion to Set Preliminary Hearing on the Special and Affirmative Defenses.

In an Order dated September 30, 2021, the RTC Branch 268: (a) granted SMEC's Motion for Reconsideration of the Order of May 22, 2018, which dismissed the case for lack of jurisdiction; (b) granted SMEC's Omnibus Motion to Admit Supplemental Complaint and Allow Future Consignations without Tender; and (c) reinstated the Complaint (the "September 30, 2021 Order").

RTC Branch 268 scheduled the pre-trial on December 13, 2021 but the pre-trial was postponed because PSALM filed an Omnibus Motion for Reconsideration of the September 30, 2021 Order and to Resolve Pending Motion to Set Preliminary Hearing on Special and Affirmative Defenses, and to Defer Pre-trial. SMEC has already filed an Opposition to the Omnibus Motion.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at March 31, 2022 and December 31, 2021, the total amount consigned with the RTC Pasig is P491,242, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position.

b. Event After the Reporting Date

On May 2, 2022, the Parent Company's BOD approved the payment of distributions amounting to (i) US$20,438 plus applicable taxes on June 9, 2022 to the US$750,000 SPCS holders, (ii) US$10,156 on June 16, 2022 to the US$650,000 RPS holder, and (iii) US$17,100 plus applicable taxes on July 21, 2022 to the US$600,000 SPCS holders.

c. Supplemental Cash Flows Information

The following table summarizes the changes in liabilities and equity arising from the financing activities, including both changes arising from cash flows and non-cash changes:

| | Loans Payable | Long-term Debt | Lease Liabilities | Total |
|---|---|---|---|---|
| **Balance as at January 1, 2022 (Audited)** | **P1,529,970** | **P222,921,443** | **P78,213,359** | **P302,664,772** |
| **Changes from Financing Activities** | | | | |
| Proceeds from borrowings | 782,100 | 10,274,000 | - | 11,056,100 |
| Payments of borrowings | (1,564,200) | (926,686) | - | (2,490,886) |
| Payments of lease liabilities | - | - | (6,503,642) | (6,503,642) |
| **Total Changes from Financing Activities** | **(782,100)** | **9,347,314** | **(6,503,642)** | **2,061,572** |
| Effect of Changes in Foreign Exchange Rates | 28,230 | 1,181,965 | 529,422 | 1,739,617 |
| Other Changes | - | (119,796) | 970,222 | 850,426 |
| **Balance as at March 31, 2022 (Unaudited)** | **P776,100** | **P233,330,926** | **P73,209,361** | **P307,316,387** |

| | Loans Payable | Long-term Debt | Lease Liabilities | USCS | Total |
|---|---|---|---|---|---|
| Balance as at January 1, 2021 (Audited) | P1,680,805 | P219,552,782 | P99,511,094 | P13,823,499 | P334,568,180 |
| Changes from Financing Activities | | | | | |
| Proceeds from borrowings | 1,682,800 | 9,691,000 | - | - | 11,373,800 |
| Payments of borrowings | (1,682,800) | (10,559,973) | - | - | (12,242,773) |
| Payments of lease liabilities | - | - | (5,817,250) | - | (5,817,250) |
| Redemption of USCS | - | - | - | (14,581,500) | (14,581,500) |
| Total Changes from Financing Activities | - | (868,973) | (5,817,250) | (14,581,500) | (21,267,723) |
| Effect of Changes in Foreign Exchange Rates | 17,745 | 714,490 | 503,164 | - | 1,235,399 |
| Other Changes | - | (128,067) | 84,062 | 758,001 | 713,996 |
| Balance as at March 31, 2021 (Unaudited) | P1,698,550 | P219,270,232 | P94,281,070 | P - | P315,249,852 |

Other changes pertain to additions for new lease agreements and amortization of lease liabilities and amortization of debt-issue costs of long-term debt.

d. Commitments
The outstanding purchase commitments of the Group amounted to P90,116,874 and P100,125,622 as at March 31, 2022 and December 31, 2021, respectively. Amount authorized but not yet disbursed for capital projects is approximately P139,985,721 and P214,795,314 as at March 31, 2022 and December 31, 2021, respectively.

The Group's material commitments for capital expenditure projects involve the construction of power plants, mostly utilizing high efficiency low emission technologies, liquefied natural gas and BESS in line with the Group's expansion projects and acquisition of fixed assets needed for normal operations of the business. The funds to be used for these projects will come from available cash and proceeds from outstanding long-term loans and issued SPCS

e. 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.

f. There were no material changes in estimates of amounts reported in prior financial year.

g. The effects of Coronavirus Disease 2019 and Russia-Ukraine conflict in the performance of the Group as at first quarter of 2022 are discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

## SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
## DISCUSSION OF THE GROUP'S FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that SMC Global Power Holdings Corp. and Subsidiaries (the "Group") use. Analyses are employed by comparisons and measurements based on the financial data as at March 31, 2022 and December 31, 2021 for liquidity, solvency and profitability ratios and for the periods ended March 31, 2022 and 2021 for operating efficiency ratios.

**LIQUIDITY RATIO**

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

| | Conventional | | Adjusted [1] | |
|---|---|---|---|---|
| *(in Millions Peso)* | **March 2022** | December 2021 | **March 2022** | December 2021 |
| (A) Current Assets | **157,646** | 156,470 | **157,646** | 156,470 |
| (B) Current Liabilities | **144,565** | 109,472 | **124,855** | 87,876 |
| Current Ratio (A)/(B) | **1.09** | 1.43 | **1.26** | 1.78 |

[1] Current portion of lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on lease are pass-through charges billable to customers. As at March 31, 2022 and December 31, 2021, current portion of lease liabilities to PSALM amounted to P19,710 million and P21,596 million, respectively.

**SOLVENCY RATIO**

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

***Per relevant Loan Covenants of SMC Global Power***

| *(in Million Peso)* | **March 2022** | December 2021 |
|---|---|---|
| (A) Net Debt [2] | **197,644** | 184,001 |
| (B) Total Equity [3] | **246,756** | 247,603 |
| Net Debt-to-Equity Ratio (A)/(B) | **0.80** | 0.74 |

**All items net of amounts attributable to ring-fenced subsidiaries*

[2] Consolidated net total debt plus total PSALM lease liabilities.

[3] Consolidated total equity.

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

| *(in Millions Peso)* | **Conventional** | | **Adjusted** [4] | |
|---|---|---|---|---|
| | **March 2022** | December 2021 | **March 2022** | December 2021 |
| (A) Total Assets | **646,290** | 635,724 | **495,759** | 483,896 |
| (B) Total Equity | **251,953** | 251,728 | **251,953** | 251,728 |
| Asset-to-Equity Ratio (A)/(B) | **2.57** | 2.53 | **1.97** | 1.92 |

[4] Net carrying amount of the IPPA power plants, in relation to the IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding lease liabilities. As at March 31, 2022 and December 31, 2021, the net carrying amount of the IPPA power plant assets amounted to P150,531 million and P151,828 million, respectively.

## PROFITABILTY RATIO

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

| *(in Millions Peso)* | **March 2022** | December 2021 |
|---|---|---|
| (A) Net Income [5] | **10,129** | 15,978 |
| (B) Total Equity | **251,953** | 251,729 |
| Return on Equity (A)/(B) | **4.0%** | 6.3% |

[5] Annualized for quarterly reporting.

$$\textbf{Interest Coverage Ratio} = \frac{\textbf{Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)}}{\textbf{Interest Expense}}$$

***Per relevant Loan Covenants of SMC Global Power***

| *(in Million Peso)* | **March 2022** | December 2021 |
|---|---|---|
| (A) EBITDA [6] | **30,901** | 33,542 |
| (B) Interest Expense [7] | **12,969** | 13,405 |
| Interest Coverage Ratio (A)/(B) | **2.38** | 2.50 |

[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).

## OPERATING EFFICIENCY

**Volume Growth (Decline)** = **Current Period Offtake Volume / Prior Period Offtake Volume - 1**

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

| | Periods Ended March 31 | |
|---|---|---|
| *(in GWh)* | **2022** | 2021 |
| (A) Current Period Offtake Volume | **6,991** | 6,344 |
| (B) Prior Period Offtake Volume | **6,344** | 6,644 |
| Volume Growth (Decline) [(A)/(B) – 1] | **10.2%** | (4.5%) |

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

| | Periods Ended March 31 | |
|---|---|---|
| *(in Millions Peso)* | **2022** | 2021 |
| (A) Current Period Revenue | **43,036** | 27,366 |
| (B) Prior Period Revenue | **27,366** | 28,298 |
| Revenue Growth Decline [(A)/(B) – 1] | **57.3%** | (3.3%) |

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

| | Periods Ended March 31 | |
|---|---|---|
| *(in Millions Peso)* | **2022** | **2021** |
| (A) Income from Operations | **6,071** | **8,423** |
| (B) Revenues | **43,036** | **27,366** |
| Operating Margin (A)/(B) | **14.1%** | **30.8%** |

**ANNEX "B"**

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 at and for the period ended March 31, 2022 (with comparative figures as at December 31, 2021 and for the period ended March 31, 2021). All necessary adjustments have been made to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2022, and for all the other periods presented. 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. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last two periods are summarized in the following tables.

| | **Periods Ended March 31** | |
|---|---|---|
| *In Millions* | **2022** | 2021 |
| Revenues | **P43,036** | P27,366 |
| Cost of power sold | **(35,807)** | (17,730) |
| Gross profit | **7,229** | 9,636 |
| Selling and administrative expenses | **(1,158)** | (1,213) |
| Income from operations | **6,071** | 8,423 |
| Interest expense and other financing charges | **(4,092)** | (4,595) |
| Interest income | **217** | 125 |
| Equity in net earnings of an associate and joint ventures | **60** | 37 |
| Other income - net | **1,085** | 2,083 |
| Income before income tax | **3,341** | 6,073 |
| Income tax expense (benefit) | **1,413** | (1,704) |
| Net Income | **1,928** | 7,777 |

**2022 vs. 2021**

| In Millions | March 31 2022 | March 31 2021 | Horizontal Analysis Increase (Decrease) Amount | Horizontal Analysis Increase (Decrease) % | Vertical Analysis 2022 | Vertical Analysis 2021 |
|---|---|---|---|---|---|---|
| Revenues | **P43,036** | P27,366 | P15,670 | 57% | **100%** | 100% |
| Cost of power sold | **(35,807)** | (17,730) | 18,077 | 102% | **(83%)** | (65%) |
| Gross profit | **7,229** | 9,636 | (2,407) | (25%) | **17%** | 35% |
| Selling and administrative expenses | **(1,158)** | (1,213) | (55) | (5%) | **(3%)** | (4%) |
| Income from operations | **6,071** | 8,423 | (2,352) | (28%) | **14%** | 31% |
| Interest expense and other financing charges | **(4,092)** | (4,595) | (503) | (11%) | **(10%)** | (17%) |
| Interest income | **217** | 125 | 92 | 74% | **1%** | 0% |
| Equity in net earnings of an associate and joint ventures | **60** | 37 | 23 | 62% | **0%** | 0% |
| Other income - net | **1,085** | 2,083 | (998) | (48%) | **3%** | 8% |
| Income before income tax | **3,341** | 6,073 | (2,732) | (45%) | **8%** | 22% |
| Income tax expense (benefit) | **1,413** | (1,704) | 3,117 | 183% | **3%** | (6%) |
| Net income | **P1,928** | P7,777 | (P5,849) | (75%) | **5%** | 28% |

***Revenues***

The Group’s consolidated revenues for the first quarter of 2022 registered at P43,036 million, 57% or P15,670 million higher than last year's P27,366 million for the same period. The increase was mainly due to: (i) higher average realization prices attributable to higher fuel cost passed on to customers as a result of rising coal prices and the increase in overall spot sales price in Luzon, (ii) improvement in nominations from Manila Electric Company (“Meralco”), other distribution utilities and industrial customers arising from relatively lighter Coronavirus Disease 2019 (COVID-19) quarantine restrictions compared to 2021, thereby increasing offtake volumes by 10% to 6,991 gigawatt hours (“GWh”) from 6,344 GWh in 2021, and (iii) commencement of commercial operations of the 20 megawatts (“MW”) Kabankalan 1 Battery Energy Storage Systems (“BESS”) on January 26, 2022.

***Cost of Power Sold***

Cost of power sold significantly increased by 102% or P18,077 million, from P17,730 million for the first quarter of 2021 to P35,807 million for the same period of 2022. The increase was mainly attributable to the following: (i) higher generation cost of Sual, Masinloc, Limay and Malita Power Plants on account of rising coal prices, (ii) higher volume of power purchased from the wholesale market coupled with higher spot purchase prices, and (iii) increase in gas prices for the Ilijan Power Plant.

***Selling and Administrative Expenses***

Selling and administrative expenses decreased by 5% or P55 million, from P1,213 million for the first quarter of 2021 to P1,158 million for the same period of 2022. The decrease was mainly due to: (i) the decline in contracted service charges incurred on account of lower outage days for preventive maintenance of Masinloc Power Plant Unit 3, and (ii) decline in contributions for COVID-19 community response initiatives.

***Income from Operations***

In spite of strong revenue growth, consolidated income from operations of P6,071 million for the first quarter of 2022 declined by 28% or P2,352 million from the same period last year, mainly due to lower margins of the Group as coal indices remained at high level, which more than doubled from last year, as well as the increase in spot purchase prices.

***Interest Expense and Other Financing Charges***

Interest expense and other financing charges decreased by 11% or P503 million from last year's P4,595 million for the same period to P4,092 million in 2022, primarily due to lower interest recognized on the declining principal balances of the Independent Power Producer Administrator ("IPPA") entities' lease liabilities.

***Interest Income***

Interest income increased by 74% or P92 million from last year's P125 million for the same period to P217 million in the first quarter of 2022, driven primarily by higher average interest rate for the period.

***Equity in Net Earnings***

Equity in net earnings of an associate and joint ventures increased from P37 million last year to P60 million in the same period of 2022 due mainly to the improvement in the financial performance results of Angat Hydropower Corporation ("AHC").

***Other Income - Net***

Other income decreased by 48% or P998 million from last year's P2,083 million for the same period to P1,085 million in 2022. This was due to (i) lower income from reduction of Power Sector Assets and Liabilities Management Corporation ("PSALM") fixed fees for the outages of Sual Power Plant in the first quarter of 2021, and (ii) higher net foreign exchange losses by P196 million recognized on the Group's US dollar-denominated financial assets and liabilities with the movement of the Philippine peso against the US dollar during the period.

***Income Tax Expense (Benefit)***

Provision for income tax made a complete turnaround from last year's P1,704 million benefit to P1,413 million expense this year. This resulted primarily from the recording in the first quarter of 2021 the impact of the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE") Law, that was approved by the President of the Philippines on March 26, 2021. One of the key provisions of the CREATE Law is an immediate 5% to 10% point cut in the corporate income tax starting July 1, 2020. CREATE impact adjustment, reducing income tax expense for 2020 by P3,152 million, was recognized in the first quarter of 2021.

***Net Income***

Consequently, the consolidated net income of the Group for the first quarter decreased by 75% or P5,849 million from P7,777 million in 2021 to P1,928 million in 2022. Without the CREATE impact, the net income would have declined by 58% from the previous year.

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

1. **POWER GENERATION**

   a. **San Miguel Energy Corp. (SMEC, IPPA of Sual Power Plant)**

   For the first quarter of 2022, net generation of 1,575 GWh at 69% net capacity factor rate was 180% higher than the same period last year. This was mainly due to lower outages in 2022 as Sual Unit 2 was on extended outage for the repair of turbine blades and diaphragm during the first quarter of 2021. Likewise, total offtake volume increased by 9% to 1,936 GWh from same period last year on account of higher Meralco nominations and the significant improvement in volumes sold to spot and affiliate generators for the first quarter of 2022.

   Revenues of P12,382 million was 46% higher than last year's P8,474 million mainly attributable to improvement in average realization price of electric cooperatives driven by the increase in pass-on fuel cost, and higher spot market prices.

   Operating income of P1,470 million was 8% lower than P1,590 million in 2021 on account of higher generation cost due to significant increase in cost of coal and spot purchase prices offset by the decline in power purchase volumes from affiliate and external generators as a result of higher plant availability during the period.

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

   The net generation of Ilijan Power Plant for the first quarter of 2022 fell by 14% due to its deration brought by the continued Malampaya gas supply restriction which started on March 17, 2021. Total offtake volume of 1,817 GWh decreased by 9% compared to same period last year on account of lower spot sales volume and replacement power sold to affiliate generators slightly offset by the increase in Meralco nominations.

   Revenues of P8,628 million for the first quarter of 2022 was 14% higher compared to same period last year despite lower offtake volumes. This was on account of the significant increase in spot sales prices and the improved average realization prices for bilateral sales.

   Operating income of P1,283 million in 2022 dropped by 35% compared to the P1,971 million posted on the same period last year. This was attributable to higher volume of power purchases as a result of the Ilijan Power Plant’s deration and the significant increase in average spot purchase price caused by multiple plants shutdown in Luzon during the period.

   c. **Strategic Power Dev’t. Corp. (SPDC, IPPA of San Roque Power Plant)**

   The San Roque Power Plant’s net generation of 189 GWh, at 25% net capacity factor rate, for the first quarter of 2022 decreased by 19% due to lower water reservoir level. Total offtake volume of 237 GWh likewise decreased by 7% compared to 254 GWh in the first quarter of 2021 due to lower spot sales volume partly offset by higher replacement power supplied to affiliate generators and from the new bilateral customer contract which took effect on March 5, 2022.

   Revenues of P1,259 million for the first quarter of 2022 was 12% higher than the same period last year, mainly due to higher average realization price and volume of bilateral sales.

The foregoing factors resulted to an upturn in operating income from P485 million in 2021 to P572 million in 2022.

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

Limay Greenfield Power Plant has a combined capacity of 600 MW. Total generation of the plant from all operating units of 981 GWh at 85% net capacity factor rate for the first quarter of 2022 was 3% lower than the same period last year at 1,016 GWh due to higher plant outages for preventive maintenance services. SCPC dispatched 389 GWh of the plant's net generation to its power generation customers while the rest was dispatched to its Retail Energy Supplier (RES) customers. Total offtake volume of 407 GWh fell from last year by 11% due to decline in both bilateral and spot sales volume.

For the first quarter of 2022, revenues increased by 44% from P2,058 million last year to P2,972 million in the current year due to higher average fuel charges passed on to customers as a result of rising fuel prices and increase in spot rates.

Consequently, operating income registered at P944 million in 2022 was 9% higher than the P869 million posted in 2021.

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

For the first quarter of 2022, a total of 397 GWh was generated by the plant at a capacity factor rate of 70% which was 10% lower compared to the same period in 2021. Revenues at P3,557 million grew by 60% on account of higher average realization price due to higher pass-on fuel cost as a result of rising cost of coal. Accordingly, operating income registered at P1,307 million, was 36% higher than the same period last year.

f. **Masinloc Power Partners Co. Ltd. (MPPCL, owner of Masinloc Power Plant)**

The Masinloc Power Plant operating Units 1, 2, and 3 with a combined net capacity of 924MW, contributed a total net generation of 1,463 GWh for the first quarter of 2022. This was 4% higher compared to the 1,411 GWh for the same period last year, due to higher plant availability.

Total offtake volume of 1,690 GWh exceeded last year by 3% on account of new contracts with bilateral customers. Year to date revenues inclusive of ancillary revenues from the 10 MW BESS, increased to P10,998 million due to high spot market prices and bilateral rates to customers. However, operating income of P737 million was lower by 58% attributed to the increase in cost of coal and spot purchase prices during the period.

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

a. **Albay Power and Energy Corporation (APEC, Concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative, Inc.)**

Revenues of P1,029 million was 34% higher than the P769 million posted on the same period last year driven primarily by the increase in average realization price. The improvement in revenues was curtailed by higher systems loss and cost of power purchases. Consequently, operating loss of P217 million in 2022 was higher than the P82 million loss recognized in 2021 for the same period.

b. **SCPC, RES**
For the first quarter of 2022, total offtake volumes registered at 660 GWh was at par with last year's 663 GWh. Revenues increased by 21% from P3,154 million for the same period last year to P3,826 million due to higher bilateral rates. This was offset by higher generation cost as a result of rising fuel prices due to increasing coal prices. Consequently, P226 million operating loss was registered in 2022, a turnaround from the P565 million operating income posted in the same period of 2021.

c. **MPPCL, RES**

For the first quarter of 2022, total offtake volumes and revenues more than doubled compared to last year, registering at 325 GWh and P1,964 million, respectively, attributable to new contestable customers. Operating income of P131 million, however, was lower compared to the same period last year due to increase in generation costs driven primarily by higher coal prices during the period.

**2021 vs. 2020**

| | **March 31** | | **Horizontal Analysis Increase (Decrease)** | | **Vertical Analysis** | |
|---|---|---|---|---|---|---|
| *In Millions* | **2021** | **2020** | **Amount** | **%** | **2021** | **2020** |
| Revenues | **P27,366** | P28,298 | (P932) | (3%) | **100%** | 100% |
| Cost of power sold | **(17,730)** | (18,965) | (1,235) | (7%) | **(65%)** | (67%) |
| Gross profit | **9,636** | 9,333 | 303 | 3% | **35%** | 33% |
| Selling and administrative expenses | **(1,213)** | (1,510) | (297) | (20%) | **(4%)** | (5%) |
| Income from operations | **8,423** | 7,823 | 600 | 8% | **31%** | 28% |
| Interest expense and other financing charges | **(4,595)** | (4,782) | (187) | (4%) | **(17%)** | (17%) |
| Interest income | **125** | 466 | (341) | (73%) | **0%** | 2% |
| Equity in net earnings (losses) of an associate and joint ventures | **37** | (159) | 196 | 123% | **0%** | (1%) |
| Other income - net | **2,083** | 1,723 | 360 | 21% | **8%** | 6% |
| Income before income tax | **6,073** | 5,071 | 1,002 | 20% | **22%** | 18% |
| Income tax expense (benefit) | **(1,704)** | 1,850 | (3,554) | (192%) | **(6%)** | 7% |
| Net income | **P7,777** | P3,221 | P4,556 | 141% | **28%** | 11% |

***Revenues***

The Group’s consolidated revenues for the first quarter of 2021 registered at P27,366 million, 3% or P932 million lower than the P28,298 million for 2020 same period, as offtake volumes of 6,344 GWh declined by 5%. The decrease was mainly due to: (i) lower demand of industrial and contestable customers due to continuing effect of community quarantine, (ii) lower nominations from distribution utilities customers of SMCPC, (iii) decrease in overall spot sales volume of Luzon-based power plants, and moderated by (iv) higher average realization prices.

***Cost of Power Sold***

Cost of power sold likewise decreased by 7% or P1,235 million, from P18,965 million for the first quarter of 2020 to P17,730 million in 2021 same period. The decrease was attributable to the following: (i) lower cost of coal consumption mainly due to the decline in net generation of Sual and Davao Greenfield Power Plants, with the prolonged outage of Sual Unit 2, coupled with lower average prices of coal consumed in the first quarter of 2021, (ii) lower energy fees due primarily to the decline in net generation and lower average natural gas prices for the Ilijan Power Plant, and partly offset by (iii) higher power purchases from external generators and the spot market to meet bilateral requirements.

***Selling and Administrative Expenses***

Selling and administrative expenses decreased by 20% or P297 million, from P1,510 million for the first quarter of 2020 to P1,213 million in 2021. The decrease was mainly due to: (i) contributions of P200 million for COVID-19 community response initiatives incurred in the first quarter of 2020, and (ii) lower taxes and licenses due to the decline in local business taxes of San Miguel Electric Corp. (“SMELC”) and SPDC and lower documentary stamp taxes incurred by SMC Global Power.

***Income from Operations***

With lower generation costs, gas price and operating expenses, and effective implementation of power dispatch strategies, consolidated income from operations ended 8% or P600 million higher from P7,823 million posted in 2020 to P8,423 million for the first quarter of 2021.

***Interest Expense and Other Financing Charges***

Interest expense and other financing charges decreased by 4% or P187 million, from P4,782 million during the first quarter of 2020 to P4,595 million in 2021, due primarily to lower interest recognized on the declining principal balances of the IPPA entities’ lease liabilities.

***Interest Income***

Interest income decreased by 73% or P341 million, from P466 million reported interest income during the first quarter of 2020 to P125 million in 2021, driven primarily by lower average interest rate and shorter placement periods as funds were utilized to defray capital expenditures for ongoing construction projects.

***Equity in Net Earnings (Losses)***

Equity in net earnings (losses) of an associate and joint ventures made a turnaround from P159 million loss in the first quarter of 2020 to P37 million gain in 2021, due mainly to the improvement in the financial performance results of AHC.

***Other Income - Net***

Other income increased by 21% or P360 million from P1,723 million reported in the first quarter of 2020 to P2,083 million in 2021. This was due to (i) the recognition of income from reduction of PSALM fixed fees for the outages of Sual Power Plant in the first quarter of 2021, (ii) lower net foreign exchange losses by P79 million recognized on the Group's US dollar-denominated financial assets and liabilities with the movement of the Philippine peso against the US dollar in 2021, and offset by (iii) the recognition in 2020 of P1,931 million to be recovered from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts.

***Income Tax Expense (Benefit)***

Provision for income tax had a complete turnaround from P1,850 million expense in the first quarter of 2020 to P1,704 million benefit in 2021. This resulted primarily from the recording in the first quarter of 2021 of the CREATE impact reducing the provision for income tax expense for year 2020 by P3,152 million.

***Net Income***

Consequently, the consolidated net income of the Group for the first quarter of 2021 grew by 141% or P4,556 million, from P3,221 million in 2020 to P7,777 in 2021. Nevertheless, without the effect of the CREATE Law, consolidated net income would still have increased by 44% to P4,625 million.

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

1. **POWER GENERATION**

a. **SMEC, IPPA of Sual Power Plant**

For the first quarter of 2021, net generation of 562 GWh at 26% net capacity factor rate was 62% lower than the same period of 2020 due to higher outage hours resulting mainly from prolonged outage of Unit 2 and forced and planned maintenance shutdown of Unit 1 during the period. Likewise, total offtake volume decreased to 1,782 GWh from 2,302 GWh for the first quarter of 2020 on account of lower demand from industrial and RES customers during the quarantine period.

Revenues of P8,474 million was 9% lower than the P9,291 million reported for the same period in 2020, mainly attributable to the decline in offtake volume and moderated by the increase in average realization price for bilateral customers with rate escalation provisions in its Power Supply Agreement ("PSA").

Operating income of P1,590 million was 37% lower than the P2,518 million posted in 2020 on account of the foregoing plus higher power purchases during the outages of both Sual units.

b. **SPPC, IPPA of Ilijan Power Plant**

The net generation of Ilijan Power Plant for the first quarter of 2021 fell by 2% on account of higher outage hours resulting from the planned maintenance shutdown of Block 2 due to combustor inspection in 2021. Total offtake volume of 1,993 GWh increased by 5% compared to the same period in 2020 due mainly to higher Meralco nominations, with the commencement of the 290 MW Mid-merit PSA on March 16, 2020.

Despite the increase in offtake volume, revenues of P7,546 million for the first quarter of 2021 was at par with the revenues reported for 2020. This was on account of the decline in average realization prices for bilateral and spot sales volume.

Operating income of P1,971 million in 2021 improved by 31% than the P1,507 million posted in 2020 due to the increase in offtake volume and decline in average gas price for the period.

c. **SPDC, IPPA of San Roque Power Plant**

The San Roque Power Plant's net generation of 233 GWh, at 31% net capacity factor rate, for the first quarter of 2021 increased by 69% due to longer operating hours attributable to high reservoir level. Total offtake volume of 254 GWh likewise increased by 45% compared to 175 GWh in 2020 due to the higher spot sales and replacement power supplied to affiliate generators.

Revenues for the period increased by 47% from P765 million in 2020 to P1,121 million in 2021 due mainly to higher average realization price and total offtake volume.

The foregoing factors resulted to an upturn in operating income from P159 million in 2020 to P485 million in 2021.

d. **SCPC, owner of Limay Greenfield Power Plant**

Total generation of the plant from all operating units of 1,016 GWh at 88% net capacity factor rate for the first quarter of 2021 was 30% higher than the 784 GWh posted in 2020 due to higher plant availability with lower outage hours. SCPC dispatched 426 GWh of the plant's net generation to its power generation customers while the rest was dispatched to its RES customers. Total offtake volume of 459 GWh fell by 24% from the total offtake volume registered in 2020 due to decline in demand from industrial customers and distribution utilities with the imposition of quarantine in 2021.

Revenues for the first quarter decreased by 27% from P2,803 million reported in 2020 to P2,058 million in 2021 due to the decline in offtake volume and the average selling price for replacement power sold to affiliate generators. Consequently, operating income registered at P869 million in 2021, 9% lower than the P960 million posted in 2020.

e. **SMCPC, owner of Davao Greenfield Power Plant**

For the first quarter of 2021, a total of 443 GWh was generated by the plant at a capacity factor rate of 78%. This was 7% lower compared to the same period in 2020. Revenues at P2,229 million declined by 24% on account of lower nominations from its existing bilateral customers. Likewise, average realization price decreased due to lower pass-on fuel costs with the utilization of lower kcal coal. Accordingly, operating income registered at P961 million, which was 21% lower than the operating income reported in the same period of 2020.

f. **MPPCL, owner of Masinloc Power Plant**

Total net generation of 1,411 GWh for the first quarter of 2021 was 11% higher compared to 1,273 GWh posted in 2020. This was attributable to higher combined operating hours of Units 1 and 2 in 2021. The start of commercial operations of Unit 3 was on September 26, 2020.

Total offtake volume of 1,640 GWh fell by 2% from the offtake volume registered in 2020 on account of lower spot sales volume. Nonetheless, year-to-date revenues inclusive of ancillary revenues from the 10 MW BESS, and operating income increased to P6,278 million and P1,752 million, respectively, driven by higher average replacement power realization rates to affiliate generators and increase in spot prices in 2021.

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

a. **APEC, Concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative, Inc.**

Revenues of P769 million was 9% lower than the P849 million posted in 2020, primarily driven by lower offtake volume and decline in average realization price. The decline in revenues was partially mitigated by lower cost of power purchases. Consequently, operating loss of P82 million in 2021 was higher than the P36 million recognized in 2020 for the same period.

b. **SCPC, RES**

For the first quarter of 2021, total offtake volume registered at 663 GWh. This was 28% higher than the 518 GWh registered in 2020 due to increase in nominations from contestable customers and the transfer of contestable customers from SMELC. Revenues increased by 27% from P2,474 million in the first quarter of 2020 to P3,154 million in 2021 as offtake volume increased. Consequently, operating income registered at P565 million in 2021 was 150% higher than the P226 million posted in 2020.

c. **MPPCL, RES**

For the first quarter of 2021, total offtake volume and revenues more than doubled compared to 2020, registering at 131 GWh and P789 million, respectively, attributed mainly to the contracts assigned from SMELC. Consequently, operating income registered at P220 million in 2021, much higher than in 2020.

## II. FINANCIAL POSITION

## A. MAJOR DEVELOPMENTS IN 2022

### AVALIMENT OF LONG-TERM DEBT

On January 21, 2022, SMC Global Power availed US$200 million from a 3-year term loan subject of a facility agreement executed with a foreign bank on September 8, 2021. Initial loan amount under the facility agreement of US$100 million, was increased to US$200 million on December 16, 2021. The loan is subject to floating interest rate based on London Interbank Offered Rate plus margin and will mature in September 2024.

The funds were used for capital expenditures relating to expansion projects and payment of other transaction related fees, costs and expenses of the facility.

### PAYMENT OF MATURING LONG-TERM DEBT

In the first quarter of 2022, SCPC and SMCPC paid a total of P927 million of their scheduled long-term debt amortizations pursuant to the terms and conditions of their respective facility agreements.

### START OF COMMERCIAL OPERATIONS OF KABANKALAN 1 BESS

On January 6, 2022, an Energy Regulatory Commission ("ERC") Order granted Provisional Authority for the implementation of the Ancillary Services Procurement Agreement between the National Grid Corporation of the Philippines and SMCGP Philippines Energy Storage Co. Ltd. ("SMCGP Philippines Energy") for 5 years commencing on January 26, 2022. Following the receipt of the ERC Order, SMCGP Philippines Energy declared the commercial operations of its 20 MW Kabankalan 1 BESS with the Independent Electricity Market Operator of the Philippines starting January 26, 2022.

### EVENTS AFTER THE REPORTING DATE

*- Availment of short-term loan*

On April 8, 2022, SMC Global Power availed a 1-year term loan facility amounting to P10,000 million. The proceeds shall be used to refinance its maturing debt obligations and for general corporate purposes.

*- Redemption of maturing Series H Bonds*

On April 25, 2022, SMC Global Power completed the redemption of its Series H Bonds amounting to P13,845 million, which forms part of the P30,000 million Series HIJ fixed rate bonds issued in April 2019. SMC Global Power used in part the proceeds of the P10,000 million term loan availed in April 2022 for the redemption of the Series H Bonds.

*- Payment of long-term debt*

On April 29, 2022, MPPCL made principal repayments of term loans from its Omnibus Refinancing Agreement and Omnibus Expansion Facility Agreement amounting to US$24 million and US$14 million, respectively.

## B. MAJOR DEVELOPMENTS IN 2021

### REDEMPTION OF US$300 MILLION UNDATED SUBORDINATED CAPITAL SECURITIES ("USCS") BY SMC GLOBAL POWER

On February 26, 2021, SMC Global Power completed the redemption of the US$300 million USCS issued on August 26, 2015 pursuant to the terms and conditions of the securities. The redemption price includes the principal amount and any accrued but unpaid distributions up to (but excluding) the step-up date.

The US$300 million USCS was redeemed using in part the proceeds of the US$350 million Senior Perpetual Capital Securities issued on December 15, 2020.

### REFINANCING OF US$200 MILLION LONG-TERM DEBT BY SMC GLOBAL POWER

On March 9, 2021, SMC Global Power executed a 5-year term loan facility agreement for the amount of US$200 million used to refinance its maturing US$200 million loan obligation. Drawdown was completed on March 12, 2021. The loan is subject to floating interest rate plus margin and to mature in March 2026.

### PAYMENT OF MATURING LONG-TERM DEBT

In 2021, SCPC and SMCPC paid a total of P869 million of their outstanding long-term debts pursuant to the terms and conditions of their respective credit facility agreements.

## C. MATERIAL CHANGES PER LINE OF ACCOUNT

### 2022 vs. 2021

| *In Millions* | March 31, 2022 | December 31, 2021 | Horizontal Analysis Increase (Decrease) Amount | % | Vertical Analysis 2022 | 2021 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **P59,023** | P67,690 | (P8,667) | (13%) | **9%** | 11% |
| Trade and other receivables - net | **57,874** | 47,272 | 10,602 | 22% | **9%** | 7% |
| Inventories | **9,679** | 10,018 | (339) | (3%) | **1%** | 2% |
| Prepaid expenses and other current assets | **31,070** | 31,490 | (420) | (1%) | **5%** | 5% |
| **Total Current Assets** | **157,646** | 156,470 | 1,176 | 1% | **24%** | 25% |
| Investments and advances - net | **10,945** | 10,839 | 106 | 1% | **2%** | 2% |
| Property, plant and equipment - net | **221,075** | 211,859 | 9,216 | 4% | **34%** | 33% |
| Right-of-use assets - net | **156,728** | 157,160 | (432) | 0% | **24%** | 25% |
| Deferred exploration and evaluation costs | **723** | 719 | 4 | 0% | **0%** | 0% |
| Goodwill and other intangible assets - net | **73,780** | 72,943 | 837 | 1% | **12%** | 11% |
| Deferred tax assets | **1,578** | 1,447 | 131 | 9% | **0%** | 0% |
| Other noncurrent assets | **23,815** | 24,287 | (472) | (2%) | **4%** | 4% |
| **Total Noncurrent Assets** | **488,644** | 479,254 | 9,390 | 2% | **76%** | 75% |
| **Total Assets** | **P646,290** | P635,724 | P10,566 | 2% | **100%** | 100% |
| Loans payable | **776** | 1,530 | (754) | (49%) | **0%** | 0% |
| Accounts payable and accrued expenses | **60,221** | 56,055 | 4,166 | 7% | **9%** | 9% |
| Lease liabilities - current portion | **19,809** | 21,677 | (1,868) | (9%) | **3%** | 3% |
| Income tax payable | **25** | 25 | - | 0% | **0%** | 0% |
| Current maturities of long-term debt - net of debt issue costs | **63,734** | 30,185 | 33,549 | 111% | **10%** | 5% |
| **Total Current Liabilities** | **144,565** | 109,472 | 35,093 | 32% | **22%** | 17% |
| Long-term debt - net of current maturities and debt issue costs | **169,597** | 192,736 | (23,139) | (12%) | **26%** | 30% |
| Deferred tax liabilities | **21,560** | 20,183 | 1,377 | 7% | **4%** | 3% |
| Lease liabilities - net of current portion | **53,400** | 56,536 | (3,136) | (6%) | **8%** | 9% |
| Other noncurrent liabilities | **5,215** | 5,069 | 146 | 3% | **1%** | 1% |
| **Total Noncurrent Liabilities** | **249,772** | 274,524 | (24,752) | (9%) | **39%** | 43% |
| **Total Liabilities** | **394,337** | 383,996 | 10,341 | 3% | **61%** | 60% |

*Forward*

| *In Millions* | **March 31, 2022** | December 31, 2021 | Horizontal Analysis Increase (Decrease) Amount | % | Vertical Analysis **2022** | 2021 |
|---|---|---|---|---|---|---|
| **Equity Attributable to Equity Holders of the Parent Company** | | | | | | |
| Capital stock | **P1,062** | P1,062 | P - | 0% | **0%** | 0% |
| Additional paid-in capital | **2,490** | 2,490 | - | 0% | **0%** | 0% |
| Senior perpetual capital securities | **167,767** | 167,767 | - | 0% | **26%** | 27% |
| Redeemable perpetual capital securities | **32,752** | 32,752 | - | 0% | **5%** | 5% |
| Equity reserves | **(1,519)** | (1,536) | 17 | 1% | **0%** | 0% |
| Retained earnings | **48,426** | 48,248 | 178 | 0% | **8%** | 8% |
| | **250,978** | 250,783 | 195 | 0% | **39%** | 40% |
| Non-controlling Interests | **975** | 945 | 30 | 3% | **0%** | 0% |
| **Total Equity** | **251,953** | 251,728 | 225 | 0% | **39%** | 40% |
| **Total Liabilities and Equity** | **P646,290** | P635,724 | P10,566 | 2% | **100%** | 100% |

The Group's consolidated total assets as at March 31, 2022 amounted to P646,290 million, slightly higher by 2% or P10,566 million than December 31, 2021 balance of P635,724 million. The increase was attributable to the following factors:

a. Increase in trade and other receivables by P10,602 million was mainly attributable to the higher trade customer balances from power sales as the Group recover in part the increase in generation cost, brought by higher coal prices, coupled with higher overall offtake volumes as demand improve.

b. Increase in property, plant and equipment by P9,216 million as a result of the ongoing construction of the Batangas Combined Cycle Power Plant ("BCCPP") project, BESS projects and Mariveles Power Plant.

c. Increase in deferred tax assets by P131 million was due primarily to the deferred income tax benefit recognized by MPPCL on unrealized foreign exchange losses from the revaluation of its US dollar-denominated liabilities.

d. Decrease in cash and cash equivalents by P8,667 million was due mainly to the (i) capital expenditures for BCCPP project, BESS and Mariveles Power Plant projects; (ii) payments of maturing long-term loans by SMCPC and SCPC, and MPPCL's short-term loan; (iii) distributions paid to holders of Senior Perpetual Capital Securities ("SPCS") and Redeemable Perpetual Securities ("RPS") by SMC Global Power; partly offset by the (iv) proceeds from the US$200 million term loan drawn by the Parent Company in January 2022.

The Group's consolidated total liabilities as at March 31, 2022 amounted to P394,337 million, 3% or P10,341 million higher than the December 31, 2021 balance of P383,996 million. The major items accounting for the increase are as follows:

a. Increase in current maturities of long-term debt - net of debt issue costs by P33,549 million was attributable to the reclassification from noncurrent of the Group's term loans maturing in January 2023 and March 2023 amounting to US$149 million and US$500 million, respectively, partly offset by payments of principal amortizations made by SMCPC and SCPC in the first quarter of 2022.

b. Increase in accounts payable and accrued expenses by P4,166 million was mainly attributable to higher outstanding trade payables of IPPA entities and SCPC for energy fees, power and coal purchases as spot, coal and natural gas prices continue to surge, plus the increase in output VAT driven by higher revenues for the period.

c. Increase in deferred tax liabilities by P1,377 million was due primarily to higher provision for deferred income tax expense recognized by the IPPA entities on the difference of monthly fixed payments to PSALM over lease-related expenses.

d. Decrease in long-term debt - net of current maturities and debt issue costs by P23,139 million was due to the reclassification to current of the US$149 million and US$500 million term loans of MPPCL and SMC Global Power, respectively, that will mature in the first quarter of 2023. This was partly offset by the US$200 million term loan availed by SMC Global Power in January 2022.

e. Decrease in lease liabilities (including current portion) by P5,004 million was mainly on account of lease payments made by the IPPA entities to PSALM.

f. Decrease in loans payable by P754 million was due to partial settlement made by MPPCL on March 17, 2022 amounting to US$15 million (equivalent to P782 million) and offset by the unrealized foreign exchange loss recognized on the revaluation of the remaining balance.

**2021 vs. 2020**

| | | | Horizontal Analysis Increase (Decrease) | | Vertical Analysis | |
|---|---|---|---|---|---|---|
| *In Millions* | **March 31, 2021** | December 31, 2020 | Amount | % | **2021** | 2020 |
| Cash and cash equivalents | **P93,928** | P110,718 | (P16,790) | (15%) | **16%** | 18% |
| Trade and other receivables - net | **34,092** | 36,162 | (2,070) | (6%) | **6%** | 6% |
| Inventories | **5,434** | 5,582 | (148) | (3%) | **1%** | 1% |
| Prepaid expenses and other current assets | **26,438** | 24,916 | 1,522 | 6% | **4%** | 4% |
| **Total Current Assets** | **159,892** | 177,378 | (17,486) | (10%) | **27%** | 29% |
| Investments and advances - net | **10,002** | 9,957 | 45 | 0% | **2%** | 2% |
| Property, plant and equipment - net | **176,895** | 171,415 | 5,480 | 3% | **30%** | 28% |
| Right-of-use assets - net | **161,053** | 162,313 | (1,260) | (1%) | **27%** | 27% |
| Deferred exploration and evaluation costs | **715** | 715 | - | 0% | **0%** | 0% |
| Goodwill and other intangible assets - net | **72,846** | 72,858 | (12) | 0% | **12%** | 12% |
| Deferred tax assets | **1,354** | 1,646 | (292) | (18%) | **0%** | 0% |
| Other noncurrent assets | **12,762** | 13,734 | (972) | (7%) | **2%** | 2% |
| **Total Noncurrent Assets** | **435,627** | 432,638 | 2,989 | 1% | **73%** | 71% |
| **Total Assets** | **P595,519** | P610,016 | (P14,497) | (2%) | **100%** | 100% |

*Forward*

| *In Millions* | **March 31, 2021** | December 31, 2020 | Horizontal Analysis Increase (Decrease) Amount | % | Vertical Analysis **2021** | 2020 |
|---|---|---|---|---|---|---|
| Loans payable | **P1,698** | P1,681 | P17 | 1% | **0%** | 0% |
| Accounts payable and accrued expenses | **41,848** | 40,279 | 1,569 | 4% | **7%** | 7% |
| Lease liabilities - current portion | **24,567** | 24,007 | 560 | 2% | **4%** | 4% |
| Income tax payable | **169** | 10 | 159 | 1,590% | **0%** | 0% |
| Current maturities of long-term debt - net of debt issue costs | **13,227** | 22,722 | (9,495) | (42%) | **2%** | 4% |
| **Total Current Liabilities** | **81,509** | 88,699 | (7,190) | (8%) | **13%** | 15% |
| Long-term debt - net of current maturities and debt issue costs | **206,043** | 196,831 | 9,212 | 5% | **34%** | 32% |
| Deferred tax liabilities | **17,185** | 19,456 | (2,271) | (12%) | **3%** | 3% |
| Lease liabilities - net of current portion | **69,714** | 75,504 | (5,790) | (8%) | **12%** | 12% |
| Other noncurrent liabilities | **3,563** | 3,222 | 341 | 11% | **1%** | 1% |
| **Total Noncurrent Liabilities** | **296,505** | 295,013 | 1,492 | 1% | **50%** | 48% |
| **Total Liabilities** | **378,014** | 383,712 | (5,698) | (1%) | **63%** | 63% |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | | | |
| Capital stock | **1,062** | 1,062 | - | 0% | **0%** | 0% |
| Additional paid-in capital | **2,490** | 2,490 | - | 0% | **0%** | 0% |
| Senior perpetual capital securities | **132,200** | 132,200 | - | 0% | **22%** | 22% |
| Redeemable perpetual capital securities | **32,752** | 32,752 | - | 0% | **6%** | 5% |
| Undated subordinated capital securities | **-** | 13,823 | (13,823) | (100%) | **0%** | 2% |
| Equity reserves | **(4,611)** | (4,228) | (383) | (9%) | **0%** | 0% |
| Retained earnings | **52,596** | 47,179 | 5,417 | 11% | **9%** | 8% |
| | **216,489** | 225,278 | (8,789) | (4%) | **37%** | 37% |
| Non-controlling Interests | **1,016** | 1,026 | (10) | (1%) | **0%** | 0% |
| **Total Equity** | **217,505** | 226,304 | (8,799) | (4%) | **37%** | 37% |
| **Total Liabilities and Equity** | **P595,519** | P610,016 | (P14,497) | (2%) | **100%** | 100% |

The Group's consolidated total assets as at March 31, 2021 amounted to P595,519 million, lower by 2% or P14,497 million than December 31, 2020 balance of P610,016 million. The decrease was attributable to the following factors:

a. Decrease in cash and cash equivalents by P16,790 million was due mainly to the (i) redemption of the US$300 million USCS on February 26, 2021 by SMC Global Power, and payments of (ii) distributions to the holders of RPS, USCS and SPCS by SMC Global Power, and (iii) payments of maturing long-term borrowings of SCPC and SMCPC.

b. Decrease in trade and other receivables by P2,070 million was attributable to SPPC's collection from Meralco of November 2020 Power Bills in January 2021 following the payment term provisions of its PSAs.

c. Decrease in deferred tax assets by P292 million was due primarily to the impact of CREATE Law which reduced the corporate income tax rate from 30% to 25% thereby decreasing the deferred income tax benefit recognized on unrealized foreign exchange losses of MPPCL and on allowance for probable losses of APEC.

d. Decrease in other noncurrent assets by P972 million was due mainly to the (i) application of advances to contractors to progress billings for the ongoing constructions of the Mariveles Power Plant and of MPPCL's BESS and Unit 1 retrofit projects.

e. Increase in prepaid expenses and other current assets by P1,522 million was mainly due to higher restricted cash balances by P1,219 million of SMCPC and SCPC as required under its respective credit facility agreements.

The Group's consolidated total liabilities as at March 31, 2021 amounted to P378,014 million, 1% or P5,698 million slightly lower than the December 31, 2020 balance of P383,712 million. The major items accounting for the decrease are as follows:

a. Decrease in current maturities of long-term debt – net of debt issue costs by P9,495 million was mainly attributable to the settlement of the US$200 million term loan by SMC Global Power upon its maturity in March 2021.

b. Decrease in lease liabilities (including current portion) by P5,230 million was mainly on account of lease payments made by the IPPA entities to PSALM.

c. Decrease in deferred tax liabilities by P2,271 million was due primarily to the impact of CREATE Law which reduced the corporate income tax rate from 30% to 25% thereby decreasing the deferred income tax expense recognized by the IPPA entities on the difference of monthly fixed payments to PSALM over lease-related expenses.

d. Increase in long-term debt - net of current maturities and debt issue costs, by P9,212 million was mainly due to the US$200 million 5-year term loan availed on March 12, 2021 by SMC Global Power to refinance the US$200 million term loan maturing on the same date.

e. Increase in other noncurrent liabilities by P341 million was mainly due to the recognition of retention payable related to the ongoing Mariveles Power Plant project of Mariveles Power Generation Corporation.

f. Increase in income tax payable by P159 million was attributable mainly to the income tax due for the first quarter of 2021 of MPPCL.

The Group's consolidated total equity as at March 31, 2021 amounted to P217,505 million, lower by 4% or P8,799 million than the December 31, 2020 balance of P226,304 million. The decrease is accounted for as follows:

a. Decrease in USCS by P13,823 million pertains to the redemption on February 26, 2021 of the remaining US$300 million USCS issued in August 2015.

b. Decrease in equity reserves by P383 million resulted from the redemption of the US$300 million USCS by SMC Global Power in February 2021.

c. Increase in retained earnings by P5,417 million was mainly attributable to the net income recognized for the period reduced by distributions to SPCS, RPS and USCS holders.

## III. CASH FLOW

### SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| *(in Millions)* | March 31 | |
|---|---|---|
| | **2022** | 2021 |
| Net cash flows provided by operating activities | **P1,209** | P11,909 |
| Net cash flows used in investing activities | **(10,620)** | (5,398) |
| Net cash flows provided by (used in) financing activities | **342** | (23,637) |

Net cash flows from operations basically consist of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities are as follows:

| *(in Millions)* | March 31 | |
|---|---|---|
| | **2022** | 2021 |
| Additions to deferred exploration and development costs | **(P3)** | (P1) |
| Additions to intangible assets | **(35)** | (8) |
| Additions to investments and advances | **(46)** | (8) |
| Decrease (increase) in other noncurrent assets | **(76)** | 101 |
| Advances paid to suppliers and contractors | **(2,856)** | (77) |
| Additions to property, plant and equipment | **(7,604)** | (5,405) |

Net cash flows provided by (used in) financing activities are as follows:

| *(in Millions)* | March 31 | |
|---|---|---|
| | **2022** | 2021 |
| Proceeds from long-term debt | **P10,274** | P9,691 |
| Proceeds from short-term borrowings | **782** | 1,683 |
| Distributions paid to USCS holders | **-** | (703) |
| Redemption of USCS | **-** | (14,582) |
| Payment of stock issuance costs | **(29)** | - |
| Distributions paid to RPS holder | **(520)** | (492) |
| Payments of long-term debts | **(927)** | (10,560) |
| Distributions paid to SPCS holders | **(1,171)** | (1,174) |
| Payments of short-term borrowing | **(1,564)** | (1,683) |
| Payments of lease liabilities | **(6,503)** | (5,817) |

The effect of exchange rate changes on cash and cash equivalents amounted to P402 million and P336 million on March 31, 2022 and 2021, respectively.

## 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 I "Financial Performance" for the discussion of certain Key Performance Indicators.

**LIQUIDITY RATIO**

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

| | *Conventional* | | *Adjusted* (1) | |
|---|---|---|---|---|
| *(in Millions Peso)* | **March 2022** | December 2021 | **March 2022** | December 2021 |
| **(A) Current Assets** | **157,646** | 156,470 | **157,646** | 156,470 |
| **(B) Current Liabilities** | **144,565** | 109,472 | **124,855** | 87,876 |
| **Current Ratio (A) / (B)** | **1.09** | 1.43 | **1.26** | 1.78 |

(1) Current portion of lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on lease are pass-through charges billable to customers. As at March 31, 2022 and December 31, 2021, current portion of lease liabilities to PSALM amounted to P19,710 million and P21,596 million, respectively.

**SOLVENCY RATIO**

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

***Per relevant Loan Covenants of SMC Global Power***

| *(in Millions Peso)* | **March 2022** | December 2021 |
|---|---|---|
| **(A) Net Debt** (2) | **197,644** | 184,001 |
| **(B) Total Equity** (3) | **246,756** | 247,603 |
| **Net Debt-to-Equity Ratio (A) / (B)** | **0.80** | 0.74 |

**All items are net of amounts attributable to ring-fenced subsidiaries*

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

**Asset-to-Equity Ratio** = **Total Assets** / **Total Equity**

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

| | *Conventional* | | *Adjusted* [4] | |
|---|---|---|---|---|
| *(in Millions Peso)* | **March 2022** | December 2021 | **March 2022** | December 2021 |
| **(A) Total Assets** | **646,290** | 635,724 | **495,759** | 483,896 |
| **(B) Total Equity** | **251,953** | 251,728 | **251,953** | 251,728 |
| **Asset-to-Equity Ratio (A) / (B)** | **2.57** | 2.53 | **1.97** | 1.92 |

(4) Net carrying amount of the IPPA power plants, in relation to the IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding lease liabilities. As at March 31, 2022 and December 31, 2021, the net carrying amount of the IPPA power plant assets amounted to P150,531 million and P151,828 million, respectively.

**PROFITABILITY RATIO**

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

| *(in Millions Peso)* | **March 2022** | December 2021 |
|---|---|---|
| **(A) Net Income** [5] | **10,129** | 15,978 |
| **(B) Total Equity** | **251,953** | 251,728 |
| **Return on Equity (A) / (B)** | **4.0%** | 6.3% |

(5) Annualized for quarterly reporting.

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

***Per relevant Loan Covenants of SMC Global Power***

| *(in Millions Peso)* | **March 2022** | December 2021 |
|---|---|---|
| **(A) EBITDA** [6] | **30,901** | 33,542 |
| **(B) Interest Expense** [7] | **12,969** | 13,405 |
| **Interest Coverage Ratio (A) / (B)** | **2.38** | 2.50 |

(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).

## OPERATING EFFICIENCY

**Volume Growth (Decline)** = **Current Period Offtake Volume / Prior Period Offtake Volume - 1**

| (in GWh) | Periods Ended March 31 2022 | 2021 |
|---|---|---|
| **(A) Current Period Offtake Volume** | **6,991** | **6,344** |
| **(B) Prior Period Offtake Volume** | **6,344** | **6,644** |
| **Volume Growth (Decline) [( A / B ) – 1]** | **10.2%** | **(4.5%)** |

**Revenue Growth (Decline)** = **Current Period Revenue / Prior Period Revenue - 1**

| (in Millions Peso) | Periods Ended March 31 2022 | 2021 |
|---|---|---|
| **(A) Current Period Revenue** | **43,036** | **27,366** |
| **(B) Prior Period Revenue** | **27,366** | **28,298** |
| **Revenue Growth (Decline) [( A / B ) – 1]** | **57.3%** | **(3.3%)** |

**Operating Margin** = **Income from Operations / Revenues**

| (in Millions Peso) | Periods Ended March 31 2022 | 2021 |
|---|---|---|
| **(A) Income from Operations** | **6,071** | **8,423** |
| **(B) Revenues** | **43,036** | **27,366** |
| **Operating Margin (A) / (B)** | **14.1%** | **30.8%** |

## V. OTHER MATTERS

a. Fuel Commodity Price Volatility

In January 2022, the Government of Indonesia implemented a month-long ban on the exportation of its coal which reduced the overall availability of coal fuel in the commodities market. Consequently, international price indices for coal such as the Global Coal Newcastle Index (GC Newc Index) surged beyond the expected trajectory of historical prices based on long-term fundamental factors pertinent to the coal commodity market. Barely a few weeks after the partial lifting of the foregoing coal export ban, Russia commenced its invasion of Ukraine on February 24, 2022. This worsened the short-term outlook on coal prices as reflected in the further spikes in coal prices, with GC Newc Index reaching levels beyond US$200/MT from March onwards. With Russia-Ukraine conflict continuing to this day, coal prices remain at elevated levels but continue to show a “backwardated” forward curve which strongly suggests a more bearish outlook on coal prices in the medium term and in the long term.

The Group has been able to effectively mitigate the adverse impact of commodity price risks, primarily for coal fuel, thru the fuel price *passthru* mechanism or the periodic tariff rate review allowed under its power supply agreements or retail supply contracts with most of its offtakers. It also has supply-side risk mitigation, including among others, maintaining a pool of international and local sources of coal fuel which provide a certain level of fuel price risk mitigation and more importantly, fuel supply security.

b. Malampaya Gas Supply Restrictions

The Ilijan Power Plant uses natural gas from the Malampaya gas facility in Palawan (“Malampaya”) as fuel for its power generation. According to the Department of Energy (“DOE"), Malampaya’s natural gas output is estimated to decline substantially by 2021 as the gas reserves continue to get depleted. As early as March 2021, the National Power Corporation issued notices of gas supply restrictions from Malampaya. This significantly reduced the net generation of the Ilijan Power Plant to 60% of its total installed capacity for the remainder of 2021. The Group was constrained to use its available capacity from its portfolio of generation assets, and in certain cases, purchase from the WESM spot market, to augment its generation from the Ilijan Power Plant to meet its bilateral demand from its customers, primarily from Meralco pursuant to its power supply agreements. This reduced the gross margins of the Group in cases where the cost of replacement supply exceeds the power generation costs from the Ilijan Power Plant using Malampaya natural gas. This accounts for a significant portion in the reduction of the Group’s gross margins and operating income in 2021 from the comparative numbers in 2020.

From the end of the Cooperation Period, which also marks the expiry of the Malampaya gas supply agreement, for the Ilijan Power Plant in June 2022, the Group is looking forward to disengage from its dependence on Malampaya gas, and instead use commercial liquefied natural gas (LNG) as fuel for the power plant. Commercial LNG shall be received, stored and regasified thru an LNG terminal which is currently being built and to be operated by Atlantic Gulf and Pacific Co. beside the Ilijan Power Plant.

c. Effect of COVID-19

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization.

The Philippine government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. The graduated lockdown schemes imposed varying degrees of restrictions on travel and business operations. The day-to-day operations of the Group, being primarily engaged in power generation, were not significantly affected by the enhance community quarantine (‘ECQ”) or other graduated quarantine measures because the Philippine government considers power generation as an essential service and operations related thereto continue to be permitted. As a result, the Group’s power generation activities and any repairs and preventive maintenance works remain generally unhampered.

The demand from industrial customers in the Luzon Grid decreased significantly during the ECQ period in 2020 as a result of the cessation or suspension of business operations, but demand gradually increased with the easing of quarantine restrictions and the gradual reopening of economic activities in the National Capital Region. In contrast, the demand from most of the Group’s utility customers remained stable, and at times increased compared to their historical demand, which compensated for the reduction of industrial demand. Notably, a significant portion of utility demand represents residential and small-scale industrial customers and commercial businesses, which had consistent and levelled load profiles throughout the quarantine periods, resulting in improved fuel and operational efficiencies in the Group’s power plants. From the Group’s perspective, its bilateral energy volumes were derived mainly from contracted capacity with utility companies. Their PSAs mostly require a take-or-pay arrangement or impose minimum offtake volumes which thus allow the Group to continuously bill these customers at the relevant contracted volumes or capacities even during the various community quarantine periods.

As part of the Philippine government’s ECQ measures, the primary regulators in the local power industry – the ERC and the DOE, issued separate advisories allowing deferred payment, over four equal monthly installments, of power bills falling due within the ECQ period. Subsequently, in view of the enactment of the Bayanihan to Recover as One Act in September 2020, the primary regulators issued advisories directing the implementation of a minimum 30-day grace period and staggered payment without interests, penalties and other charges to all payments falling due within the period of community quarantine. In 2021, there were a few distribution utilities customers that entered into a payment arrangement scheme with the Group that will assist them in implementing DOE advisories in support to their member consumers during certain community quarantine periods. As at report date, the power bills covered by the deferred payment schemes have been substantially collected.

The Philippine government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. In August 2021, the Department of Interior and Local Government of the Philippines announced that it will phase out the large-scale community quarantine measures and replace the same with granular lockdowns and implement an alert level system. As at report date, Metro Manila is under Alert Level 1 and with the relatively lighter COVID-19 quarantine restrictions, overall system demand has recovered to pre-pandemic levels.

d. <u>Commitments</u>
The outstanding purchase commitments of the Group amounted to P90,117 million and P100,126 million as at March 31, 2022 and December 31, 2021, respectively. Amounts authorized but not yet disbursed for capital projects were approximately P139,986 million and P214,795 million as at March 31, 2022 and December 31, 2021, respectively.

The Group's material commitments for capital expenditure projects involve the construction of power plants, mostly utilizing high efficiency low emission technologies, LNG and BESS in line with the Group's expansion projects and acquisition of fixed assets needed for normal operations of the business. The funds to be used for these projects will come from available cash and proceeds from outstanding long-term loans and issued SPCS.

e. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity. The Group does not anticipate within the next 12 months any cash flow or liquidity problems. The Group was not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring payments. There were no significant amounts of the Group's trade payables that have not been paid within the stated trade terms.

f. 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, except those stated in Item I, discussion of Financial Performance.

g. 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.

h. There are no significant elements of income or loss that did not arise from continuing operations.

i. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

j. 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.