SMC GLOBAL POWER

12 May 2020

Philippine Dealing & Exchange Corp.
37th Floor, Tower 1, The Enterprise Center,
6766 Ayala Avenue corner Paseo de Roxas,
Makati City

Attention: **Atty. Marie Rose M. Magallen-Lirio**
Head – Issuer Compliance and Disclosure

Gentlemen:

SMC Global Power Holdings Corp. hereby furnishes the Philippine Dealing & Exchange Corp. a copy of its quarterly report for the period ended 31 March 2020, under SEC Form 17-Q, as filed with the Security Exchange Commission on even date.

Very truly yours,

SMC GLOBAL POWER HOLDINGS CORP.

By:

ELENITA D. GO
Corporate Information Officer

COVER SHEET

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S. E. C. Registration Number

SMC GLOBAL POWER HOLDINGS CORP.

(Company's Full Name)

155 EDSA
Brgy. Wack-Wack
Mandaluyong City

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

Julie Ann B. Domino-Pablo
Contact Person

(02) 8702-4510
Company Telephone Number

1	2		3	1

Month *Day*
Fiscal Year

SEC Form 17-Q
(1st Quarter ended 31 March 2020)
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

To be accomplished by SEC Personnel concerned

File Number

LCU

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

1. For the quarterly period ended **March 31, 2020**

2. Commission identification number **CS2008-01099**

3. BIR Tax Identification No **006-960-000-000**

4. Exact name of issuer as specified in its charter **SMC GLOBAL POWER HOLDINGS CORP.**

5. **Philippines**
   Province, country or other jurisdiction
   of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. **No. 155 EDSA, Brgy. Wack-Wack**
   Mandaluyong City **1550**
   Address of issuer's principal office Postal Code

8. **(632) 8702-4500**
   Issuer's telephone number, including area code

9. **N/A**
   Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

    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, 2020)
Common Shares	**1,250,004,000**
Consolidated Total Liabilities (in Thousands)	**P401,787,476**

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, 2020 (with comparative figures as of December 31, 2019 and for the period ended March 31, 2019) 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 12, 2020
Signature and Title	**RAMON U. AGAY** Comptroller/ Authorized Signatory
Date	May 12, 2020

ANNEX "A"

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND DECEMBER 31, 2019

(In Thousands)

	Note	**2020 (Unaudited)**	2019 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 15, 16*	**P98,201,827**	P79,954,187
Trade and other receivables - net	*5, 6, 15, 16*	**36,645,350**	29,989,449
Inventories		**5,134,654**	5,085,423
Prepaid expenses and other current assets	*15, 16*	**24,082,442**	23,589,625
Total Current Assets		**164,064,273**	138,618,684
Noncurrent Assets			
Investments and advances - net		**10,883,822**	11,000,760
Property, plant and equipment - net	*7*	**154,337,616**	150,344,032
Right-of-use assets - net	*8*	**165,342,959**	166,517,296
Deferred exploration and development costs		**711,527**	710,836
Goodwill and other intangible assets - net		**72,783,878**	72,771,271
Deferred tax assets		**1,011,071**	1,128,754
Other noncurrent assets	*9, 15, 16*	**18,265,390**	16,027,360
Total Noncurrent Assets		**423,336,263**	418,500,309
		P587,400,536	P557,118,993
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*15, 16*	**P2,280,600**	P2,278,575
Accounts payable and accrued expenses	*15, 16*	**35,183,753**	35,402,892
Lease liabilities - current portion	*11, 15, 16*	**23,492,778**	23,085,083
Income tax payable		**523,886**	214,776
Current maturities of long-term debt - net of debt issue costs	*10, 15, 16*	**16,494,500**	6,036,174
Total Current Liabilities		**77,975,517**	67,017,500
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*10, 15, 16*	**212,110,616**	220,762,867
Deferred tax liabilities		**14,478,213**	13,197,658
Lease liabilities - net of current portion	*11, 15, 16*	**95,344,371**	101,117,596
Other noncurrent liabilities	*15, 16*	**1,878,759**	1,598,616
Total Noncurrent Liabilities		**323,811,959**	336,676,737
Total Liabilities		**401,787,476**	403,694,237

Forward

	Note	2020 (Unaudited)	2019 (Audited)
Equity			
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Senior perpetual capital securities	*13*	**96,055,627**	65,885,565
Redeemable perpetual securities	*13*	**32,751,570**	32,751,570
Undated subordinated capital securities	*13*	**13,823,499**	13,823,499
Equity reserves		**(2,506,788)**	(2,568,395)
Retained earnings		**40,943,854**	38,987,442
		184,620,266	152,432,185
Non-controlling Interests		**992,794**	992,571
Total Equity		**185,613,060**	153,424,756
		P587,400,536	P557,118,993

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

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

CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands, Except Per Share Data)

	Note	**2020 (Unaudited)**	2019 (Unaudited)
REVENUES	*3, 6*	**P28,298,297**	P34,675,923
COST OF POWER SOLD	*3, 6, 7*	**18,964,834**	22,923,518
GROSS PROFIT		**9,333,463**	11,752,405
SELLING AND ADMINISTRATIVE EXPENSES	*3, 6, 7*	**1,510,271**	1,911,795
INCOME FROM OPERATIONS		**7,823,192**	9,840,610
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*10, 11*	**(4,781,900)**	(4,874,101)
INTEREST INCOME		**466,342**	145,609
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATE AND JOINT VENTURES		**(159,429)**	163,060
OTHER INCOME (CHARGES) - Net	*14*	**1,723,019**	127,755
INCOME BEFORE INCOME TAX		**5,071,224**	5,402,933
INCOME TAX EXPENSE		**1,850,716**	1,824,392
NET INCOME		**P3,220,508**	P3,578,541
Attributable to:			
Equity holders of the Parent Company		**P3,220,285**	P3,588,962
Non-controlling interests		**223**	(10,421)
		P3,220,508	P3,578,541
Earnings Per Common Share Attributable to Equity Holders of the Parent Company			
Basic/Diluted	*12*	**P0.36**	P1.81

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

	Note	**2019 (Unaudited)**	2018 (Unaudited)
NET INCOME		**P3,220,508**	P3,578,541
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to profit or loss			
Gain (loss) on exchange differences on translation of foreign operations		**19,439**	(34,495)
Net gain on cash flow hedges	*16*	**42,168**	5,617
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**61,607**	(28,878)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P3,282,115**	P3,549,663
Attributable to:			
Equity holders of the Parent Company		**P3,281,892**	P3,560,084
Non-controlling interests		**223**	(10,421)
		P3,282,115	P3,549,663

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

		Equity Attributable to Equity Holders of Parent Company												
							Equity Reserves							
	Note	**Capital Stock**	**Additional Paid-in Capital**	**Redeemable Perpetual Securities**	**Undated Subordinated Capital Securities**	**Senior Perpetual Capital Securities**	**Equity Reserves**	**Translation Reserves**	**Reserve for Retirement Plan**	**Hedging Reserve**	**Retained Earnings**	**Total**	**Non-controlling Interests**	**Total Equity**
As at January 1, 2020 (Audited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P13,823,499**	**P65,885,565**	**(P1,621,661)**	**(P843,421)**	**(P63,403)**	**(P39,910)**	**P38,987,442**	**P152,432,185**	**P992,571**	**P153,424,756**
Net income		-	-	-	-	-	-	-	-	-	**3,220,285**	**3,220,285**	**223**	**3,220,508**
Other comprehensive income - net of tax		-	-	-	-	-	-	**19,439**	-	**42,168**	-	**61,607**	-	**61,607**
Total comprehensive income		-	-	-	-	-	-	**19,439**	-	**42,168**	**3,220,285**	**3,281,892**	**223**	**3,282,115**
Issuance of senior perpetual capital securities		[illegible]	-	-	-	**30,170,062**	-	-	-	-	-	**30,170,062**	-	**30,170,062**
Share issuance costs		[illegible]	-	-	-	-	-	-	-	-	**(14,950)**	**(14,950)**	-	**(14,950)**
Distributions:														
Undated subordinated capital securities		[illegible]	-	-	-	-	-	-	-	-	**(735,220)**	**(735,220)**	-	**(735,220)**
Redeemable perpetual securities		[illegible]	-	-	-	-	-	-	-	-	**(513,703)**	**(513,703)**	-	**(513,703)**
Transactions with owners		[illegible]	-	-	-	**30,170,062**	-	-	-	-	**(1,263,873)**	**28,906,189**	-	**28,906,189**
As at March 31, 2020 (Unaudited)		[illegible]	**[illegible]0,000**	**P32,751,570**	**P13,823,499**	**P96,055,627**	**(P1,621,661)**	**(P823,982)**	**(P63,403)**	**P2,258**	**P40,943,854**	**P184,620,266**	**P992,794**	**P185,613,060**
As at January 1, 2019, as previously reported (Audite		[illegible]	[illegible]0,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16		-	-	-	-	-	-	-	-	-	291,352	291,352	-	291,352
As at January 1, 2019, as adjusted		1,062,504	2,490,000	32,751,570	26,933,565	-	466,843	145,256	8,052	(1,844)	32,193,131	96,049,077	-	96,049,077
Net income		-	-	-	-	-	-	-	-	-	3,588,962	3,588,962	(10,421)	3,578,541
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	(34,495)	-	5,617	-	(28,878)	-	(28,878)
Total comprehensive income		-	-	-	-	-	-	(34,495)	-	5,617	3,588,962	3,560,084	(10,421)	3,549,663
Revaluation Increment		-	-	-	-	-	5,688	-	-	-	-	5,688	987,845	993,533
Share issuance costs		-	-	-	-	-	-	-	-	-	(606)	(606)	-	(606)
Distributions:														
Undated subordinated capital securities	*13*	-	-	-	-	-	-	-	-	-	(757,133)	(757,133)	-	(757,133)
Redeemable perpetual securities	*13*	-	-	-	-	-	-	-	-	-	(530,512)	(530,512)	-	(530,512)
Transactions with owners		-	-	-	-	-	5,688	-	-	-	(1,288,251)	(1,282,563)	987,845	(294,718)
As at March 31, 2019 (Unaudited)		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P472,531	P110,761	P8,052	P3,773	P34,493,842	P98,326,598	P977,424	P99,304,022

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Thousands)

	Note	**2020 (Unaudited)**	2019 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P5,071,224**	P5,402,933
Adjustments for:			
Interest expense and other financing charges	*10, 11*	**4,781,900**	4,874,101
Depreciation and amortization	*7, 8*	**2,568,690**	2,438,814
Equity in net losses (earnings) of associate and joint ventures		**159,429**	(163,060)
Retirement cost		**11,112**	16,735
Unrealized marked-to-market gain on derivatives	*16*	**(27,889)**	25,914
Unrealized foreign exchange gains - net	*15*	**(72,328)**	(307,987)
Interest income		**(466,342)**	(145,609)
Operating income before working capital changes		**12,025,796**	12,141,841
Decrease (increase) in:			
Trade and other receivables - net		**(6,561,713)**	(4,068,172)
Inventories		**(45,834)**	486,425
Prepaid expenses and other current assets		**(632,767)**	(404,243)
Increase (decrease) in:			
Accounts payable and accrued expenses		**(507,774)**	3,680,063
Other noncurrent liabilities and others		**267,284**	80,113
Cash generated from operations		**4,544,992**	11,916,027
Interest income received		**438,052**	171,178
Income taxes paid		**62,201**	(188,799)
Interest expense and other financing charges paid		**(4,719,841)**	(4,732,057)
Net cash flows provided by operating activities		**325,404**	7,166,349
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to deferred exploration and development costs		**(691)**	(1,035)
Additions to investments and advances		**(42,492)**	(19,849)
Additions to intangible assets		**(45,752)**	(16,263)
Increase in other noncurrent assets		**(2,176,183)**	(6,530,360)
Additions to property, plant and equipment	*7*	**(4,676,239)**	(1,294,205)
Net cash flows used in investing activities		**(6,941,357)**	(7,861,712)

Forward

	Note	2020 (Unaudited)	2019 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior perpetual capital securities	*13*	**P30,170,062**	P -
Proceeds from short-term borrowings		**2,287,350**	-
Proceeds from long-term debt	*10*	**2,179,240**	1,824,200
Payment of stock issuance costs		**(14,950)**	(606)
Distributions paid to redeemable perpetual securities holder	*13*	**(513,703)**	(530,512)
Payments of long-term debt	*10*	**(586,473)**	(571,598)
Distributions paid to undated subordinated capital securities holders	*13*	**(735,220)**	(757,133)
Payments of short-term borrowings		**(2,287,350)**	-
Payments of lease liabilities	*11*	**(5,585,988)**	(4,693,744)
Net cash flows provided by (used in) financing activities		**24,912,968**	(4,729,393)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(49,375)**	57,085
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**18,247,640**	(5,367,671)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**79,954,187**	28,511,862
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*4*	**P98,201,827**	P23,144,191

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2020
(In Thousands)

				Past Due			
		Total	**Current**	**1 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**Over 90 Days**
Trade	₱	26,451,595	₱ 11,291,016	₱ 5,778,276	₱ 1,110,000	₱ 246,700	₱ 8,025,603
Non-trade		11,095,674	3,394,243	52,397	30,694	90,513	7,527,827
Related Parties		1,926,781	710,887	437,070	42,692	57,383	678,749
Total		39,474,050	₱ 15,396,146	₱ 6,267,743	₱ 1,183,386	₱ 394,596	₱ 16,232,179
Less allowance for impairment losses		2,828,700					
Net	₱	**36,645,350**					

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)

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Summary of Significant Accounting and Financial Reporting Policies

SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") prepared its interim consolidated financial statements as at and for the period ended March 31, 2020 and comparative financial statements for the same period in 2019 following the presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards ("PFRS").

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

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

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

Amended Standards and Framework Adopted in 2020

The Group has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board ("IASB") in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies*, *Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Interest Rate Benchmark Reform *(*Amendments to PFRS 9*, Financial Instruments,* PAS 39*, Financial Instruments: Recognition and Measurement* and PFRS 7*, Financial Instruments: Disclosures)*. The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform – the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

    - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

    - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

- *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

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

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

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

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

2. 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, 2019.

3. Segment Information

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

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

Inter-segment Transactions
Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm’s length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

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

Major Customers
The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (“WESM”). Sale of power to Manila Electric Company (“Meralco”) amounting to P10,371,921 and P16,590,655 for the periods ended March 31, 2020 and 2019, respectively, represents more than 10% of the Group’s total revenues.

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

Operating Segments

Financial information about reportable segments follows:

	For the Periods Ended March 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenues												
External	**P22,747,285**	P29,553,324	**P5,526,388**	P5,122,599	**P -**	P -	**P24,624**	P -	**P -**	P -	**P28,298,297**	P34,675,923
Inter-segment	**6,476,101**	5,664,216	**51,099**	60,348	**-**	-	**181,864**	150,028	**(6,709,064)**	(5,874,592)	**-**	-
	29,223,386	35,217,540	**5,577,487**	5,182,947	**-**	-	**206,488**	150,028	**(6,709,064)**	(5,874,592)	**28,298,297**	34,675,923
Costs and Expenses					**-**	-						
Cost of power sold	**20,350,516**	23,999,201	**5,214,245**	5,071,692	**-**	-	**24,946**	-	**(6,624,873)**	(6,147,375)	**18,964,834**	22,923,518
Selling and administrative expenses	**1,467,973**	1,935,892	**163,084**	111,197	**1,869**	1,863	**421,514**	645,661	**(544,169)**	(782,818)	**1,510,271**	1,911,795
	21,818,489	25,935,093	**5,377,329**	5,182,889	**1,869**	1,863	**446,460**	645,661	**(7,169,042)**	(6,930,193)	**20,475,105**	24,835,313
Segment Result	**P7,404,897**	P9,282,447	**P200,158**	P58	**(P1,869)**	(P1,863)	**(P239,972)**	(P495,633)	**P459,978**	P1,055,601	**P7,823,192**	P9,840,610

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**March 31 2020 (Unaudited)**	December 31 2019 (Audited)
Cash in banks and on hand		**P49,219,007**	P38,249,680
Short-term investments		**48,982,820**	41,704,507
	15, 16	**P98,201,827**	P79,954,187

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P461,698 and P139,694 for the periods ended March 31, 2020 and 2019, respectively.

5. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
Trade		**P26,451,595**	P21,637,478
Non-trade		**11,095,674**	9,269,808
Amounts owed by related parties	*6*	**1,926,781**	1,910,647
		39,474,050	32,817,933
Less allowance for impairment losses		**2,828,700**	2,828,484
	15, 16	**P36,645,350**	P29,989,449

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

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

	Note	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
Balance at beginning of period		**P2,828,484**	P2,574,423
Impairment losses during the period		**-**	257,879
Cumulative translation adjustment		**216**	(3,818)
Balance at end of period		**P2,828,700**	P2,828,484

No impairment loss was recognized in the consolidated statements of income, as part of “Selling and administrative expenses” account, for the periods ended March 31, 2020 and 2019.

6. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at March 31, 2020 and December 31, 2019:

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	**2020**	**P104,991**	**P176,959**	**P172,901**	**P38,434**	On demand or 30 days;	Unsecured;
	2019	453,498	777,521	135,865	74,397	non-interest bearing	no impairment
	2020	**-**	**-**	**-**	**1,894**	1 year; non-	Unsecured;
	2019	-	-	676	-	interest bearing	no impairment
Entities under Common Control	**2020**	**729,038**	**303,699**	**672,899**	**4,442,978**	On demand or 30 days;	Unsecured;
	2019	3,036,199	1,667,408	633,217	4,294,378	non-interest bearing	no impairment
	2020	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured
	2019	-	-	-	492	non-interest bearing	
Associates	**2020**	**296,968**	**-**	**339,945**	**29,351**	On demand or 30 days;	Unsecured;
	2019	1,253,058	9,416	369,603	29,813	non-interest bearing	no impairment
	2020	**3,235**	-	**207,602**	-	9 years;	Unsecured;
	2019	13,624	-	213,753	-	interest bearing	no impairment
Joint Venture	**2020**	**7,609**	**5,319**	**7,577**	**5,319**	30 days;	Unsecured;
	2019	30,281	312,233	2,472	-	non-interest bearing	no impairment
	2020	**1,319**	-	**133,795**	-	92 days;	Unsecured;
	2019	5,367	-	132,402	-	interest bearing	no impairment
Associates of Entities under Common Control	**2020**	**222,131**	-	**173,627**	**1,150**	30 days;	Unsecured;
	2019	933,917	-	199,301	1,150	non-interest bearing	no impairment
Others	**2020**	**477,728**	**-**	**395,338**	**51,458**	On demand or 30 days;	Unsecured;
	2019	2,238,738	-	400,859	51,458	non-interest bearing	no impairment
	2020	**P1,843,019**	**P485,977**	**P2,103,684**	**P4,571,076**		
	2019	P7,964,682	P2,766,578	P2,088,148	P4,451,688		

a. Amounts owed by related parties consist of trade and other receivables and security deposits.

b. Amounts owed to related parties consist of trade and non-trade payables, derivative liabilities, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to Olangapo Electricity Distribution Company, Inc. ("OEDC").

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

d. Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to Angat Hydropower Corporation by PowerOne Ventures Energy Inc. included as part of "Trade and other receivables" account in the consolidated statements of financial position.

e. The compensation of key management personnel of the Group, by benefit type, follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Short-term employee benefits	**P31,589**	P113,813
Retirement cost	**-**	4,171
	P31,589	P117,984

7. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2020 and December 31, 2019

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress (CPIP)	Total
Cost						
January 1, 2019 (Audited)	P314,801,834	P6,155,374	P2,682,860	P1,487,119	P39,312,593	P364,439,780
Adjustments due to adoption of PFRS 16	(214,342,544)	(127,682)	-	1,285	-	(214,468,941)
January 1, 2019 (as adjusted)	100,459,290	6,027,692	2,682,860	1,488,404	39,312,593	149,970,839
Additions	233,741	1,936,527	151,892	36,888	7,758,439	10,117,487
Reclassifications/Disposals	6,464,182	3,996,250	184,118	254,517	(8,612,138)	2,286,929
Currency translation adjustments	(1,797,767)	(27,912)	(92,459)	(36,607)	(1,043,641)	(2,998,386)
December 31, 2019 (Audited)	105,359,446	11,932,557	2,926,411	1,743,202	37,415,253	159,376,869
Additions	477,072	34,100	160,943	48,713	3,955,411	4,676,239
Reclassifications	109,665	-	(44,518)	(4)	442,048	507,191
Currency translation adjustments	41,548	-	2,212	848	21,628	66,236
March 31, 2020 (Unaudited)	**105,987,731**	**11,966,657**	**3,045,048**	**1,792,759**	**41,834,340**	**164,626,535**
Accumulated Depreciation and Amortization						
January 1, 2019 (Audited)	51,266,942	152,338	587,089	47,740	-	52,054,109
Adjustments due to adoption of PFRS 16	(46,938,033)	(24)	-	118	-	(46,937,939)
January 1, 2019 (as adjusted)	4,328,909	152,314	587,089	47,858		5,116,170
Depreciation and amortization	4,261,418	117,065	142,049	66,756	-	4,587,288
Reclassifications/Retirements	175,935	-	(158,048)	-	-	17,887
Currency translation adjustments	(735,867)	(17)	(50,767)	(4,259)	-	(790,910)
December 31, 2019 (Audited)	8,030,395	269,362	520,323	110,355		8,930,435
Depreciation and amortization	1,130,934	42,404	41,909	17,904	-	1,233,151
Reclassifications	274	-	4,896	-	-	5,170
Currency translation adjustments	16,961	-	621	88	-	17,670
March 31, 2020 (Unaudited)	**9,178,564**	**311,766**	**567,749**	**128,347**	**-**	**10,186,426**
Accumulated Impairment Losses						
January 1, 2019 (Audited)	-	-	70,265	-	-	70,265
Impairment	-	-	35,084	-	-	35,084
Currency translation adjustments	-	-	(2,947)	-	-	(2,947)
December 31, 2019 (Audited)	-	-	102,402	-	-	102,402
Currency translation adjustments	-	-	91	-	-	91
March 31, 2020 (Unaudited)	**-**	**-**	**102,493**	**-**	**-**	**102,493**
Carrying Amount						
December 31, 2019 (Audited)	P97,329,051	P11,663,195	P2,303,686	P1,632,847	P37,415,253	P150,344,032
March 31, 2020 (Unaudited)	**P96,809,167**	**P11,654,891**	**P2,374,806**	**P1,664,412**	**P41,834,340**	**P154,337,616**

March 31, 2019

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2019 (Audited)	P314,801,834	P6,155,374	P2,682,860	P1,487,119	P39,312,593	P364,439,780
Adjustment due to adoption of PFRS 16	(214,334,427)	(877,477)	-	-	-	(215,211,904)
January 1, 2019 (as adjusted)	100,467,407	5,277,897	2,682,860	1,487,119	39,312,593	149,227,876
Additions	4,223	267	17,258	-	1,291,536	1,313,284
Reclassifications/Retirements	(5,022)	-	9,734	-	415,166	419,878
Currency translation adjustments	(59,223)	(2,154)	(3,529)	(1,503)	(35,086)	(101,495)
March 31, 2019 (Unaudited)	100,407,385	5,276,010	2,706,323	1,485,616	40,984,209	150,859,543
Accumulated Depreciation and Amortization						
January 1, 2019 (Audited)	51,266,942	152,338	587,089	47,740	-	52,054,109
Adjustment due to adoption of PFRS 16	(46,940,080)	-	-	-	-	(46,940,080)
January 1, 2019 (as adjusted)	4,326,862	152,338	587,089	47,740		5,114,029
Depreciation and amortization	630,940	26,694	432,838	12,822	-	1,103,294
Currency translation adjustments	(29,487)	-	(378)	(130)	-	(29,995)
March 31, 2019 (Unaudited)	4,928,315	179,032	1,019,549	60,432	-	6,187,328
Accumulated Impairment Losses						
January 1, 2019 (Audited)	-	-	70,265	-	-	70,265
Impairment	-	-	-	-	-	-
March 31, 2019 (Unaudited)	-	-	70,265	-	-	70,265
Carrying Amount						
March 31, 2019 (Unaudited)	P95,479,070	P5,096,978	P1,616,509	P1,425,184	P40,984,209	P144,601,950

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

	March 31	
	2020 (Unaudited)	2019 (Unaudited)
Cost of power sold	**P1,176,697**	P1,066,510
Selling and administrative expenses	**56,454**	36,784
	P1,233,151	P1,103,294

8. Right-of-use Assets

The movements in right-of-use assets are as follows:

	Land	**Buildings and Improvements**	**Power Plants**	**Total**
Cost				
Adjustment due to adoption of PFRS 16	P1,347,957	P80,650	P167,387,089	P168,815,696
Additions	2,997,209	9,800	-	3,007,009
Reclassifications	(14,230)	-	-	(14,230)
Currency translation adjustments	(4,701)	-	-	(4,701)
December 31, 2019 (Audited)	4,326,235	90,450	167,387,089	171,803,774
Additions	162,170	-	-	162,170
Reclassifications	14,488	-	-	14,488
Currency translation adjustments	97		-	97
March 31, 2020 (Unaudited)	**4,502,990**	**90,450**	**167,387,089**	**171,980,529**
Accumulated Depreciation and Amortization				
Additions	52,189	36,713	5,186,403	5,275,305
Reclassifications	11,173	-	-	11,173
December 31, 2019 (Audited)	63,362	36,713	5,186,403	5,286,478
Additions	14,472	9,217	1,296,600	1,320,289
Reclassifications	30,803	-	-	30,803
March 31, 2020 (Unaudited)	**108,637**	**45,930**	**6,483,003**	**6,637,570**
Carrying Amount				
December 31, 2019 (Audited)	P4,262,873	P53,737	P162,200,686	P166,517,296
March 31, 2020 (Unaudited)	**P4,394,353**	**P44,520**	**P160,904,086**	**P165,342,959**

The carrying amount of the Independent Power Producer Administrators' ("IPPA") power plants under lease arrangements amounted to P160,904,085 and P162,200,686 as at March 31, 2020 and December 31, 2019, respectively (Note 11). The carrying amount of Masinloc Power Planters Co. Ltd.'s ("MPPCL") land under lease arrangement amounted to P108,243 and P108,146 as at March 31, 2020 and December 31, 2019, respectively (Note 11).

The combined asset retirement costs of SMC Consolidated Power Corporation ("SCPC") and San Miguel Consolidated Power Corporation ("SMCPC") amounted to P450,468 and P461,741 as at March 31, 2020 and December 31, 2019, respectively. In 2019, total adjustments due to remeasurements made on asset retirement costs amounted to P81,055.

9. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
Advances to suppliers and contractors		**P9,124,650**	P9,178,586
Restricted cash - net of current portion		**7,697,537**	5,553,528
Deferred input VAT - net of current portion		**931,118**	795,448
Noncurrent receivables		**245,884**	240,727
Amount owed by a related party	*6*	**176,096**	175,995
Derivative assets designated as cash flow hedge	*15, 16*	**83,042**	75,518
Other assets		**7,063**	7,558
	15, 16	**P18,265,390**	P16,027,360

Advances to suppliers and contractors include advance payments to contractors for the construction of the Group's power plant projects (Note 7).

Restricted cash mainly comprises of: (a) SCPC's Cash Flow Waterfall accounts, amounting to P1,142,304 and P1,130,680 as at March 31, 2020 and December 31, 2019, respectively; (b) MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its credit facilities, totaling to P5,902,014 and P3,773,031 as at March 31, 2020 and December 31, 2019, respectively; (c) the amount received from Independent Electricity Market Operator of the Philippines ("IEMOP") amounting to P491,242 as at March 31, 2020 and December 31, 2019, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which San Miguel Energy Corporation (SMEC) consigned with the Reqional Trial Court ("RTC") of Pasig City (Note 17); and (d) Albay Power and Energy Corp.'s reinvestment fund for sustainable capital expenditures and contributions collected from customers for bill deposits which are refundable amounting to P161,942 and P158,540 as at March 31, 2020 and December 31, 2019, respectively.

As at March 31, 2020 and December 31, 2019, the deferred input VAT mainly pertains to the input VAT relating to the construction of the power plants of the Group.

Amount owed by a related party pertains to the loan granted by SMC Power Generation Corp. to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 6).

The methods and assumptions used to estimate the fair values of restricted cash, noncurrent receivables and derivative assets are discussed in Note 16.

10. Long-term Debt

Long-term debt consists of:

	Note	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (a)		**P29,691,421**	P29,669,514
Fixed interest rate of 6.7500% maturing in 2023 (b)		**14,862,683**	14,853,800
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (c)		**19,853,151**	19,844,789
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)		**14,920,693**	14,914,240
		79,327,948	79,282,343
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (e)		**14,601,828**	14,596,547
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (f)		**35,007,228**	34,924,385
Subsidiaries			
Peso-denominated			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (g)		**41,031,407**	41,273,836
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (h)		**19,354,971**	19,669,115
Foreign currency-denominated			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (i) (j)		**29,523,599**	27,835,019
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (i) (j)		**9,758,135**	9,217,796
		149,277,168	147,516,698
	15, 16	**228,605,116**	226,799,041
Less current maturities		**16,494,500**	6,036,174
		P212,110,616	P220,762,867

a. The amount represents the first tranche of the Parent Company's P60,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P30,000,000, was issued and listed on the Philippine Dealing and Exchange Corp. (PDEx) for trading on April 24, 2019 at the issue price of 100% of face value.

   It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series H Bonds	3 years, due 2022	6.8350%
Series I Bonds	5 years, due 2024	7.1783%
Series J Bonds	7 years, due 2026	7.6000%

   Interest on the Bonds shall be payable quarterly in arrears every April 24, July 24, October 24 and January 24 of each year starting July 24, 2019, as the first interest payment date.

   The proceeds were used by the Parent Company for partial refinancing of existing loan obligations and/or re-denomination of US dollar-denominated obligations (remaining US$150,000 term loan, used for Masinloc acquisition, and US$120,000 short-term loan), investments in power-related assets and for payment of transaction-related fees, costs and expenses.

b. The amount represents the second tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration (the "Series G" Bonds). The Series G Bonds, with an aggregate principal amount of P15,000,000, were issued and listed on the PDEx for trading on August 17, 2018 at the issue price of 100% of face value with a 5-year term, due 2023, and interest rate of 6.7500%.

   Interest on the Series G Bonds shall be payable quarterly in arrears every February 17, May 17, August 17 and November 17 of each year starting November 17, 2018, as the first interest payment date.

   The proceeds were used by the Parent Company to refinance its shareholder advances, to partially refinance the US$500,000, 5-year term loan obtained in March 2018 and for payment of transaction-related expenses.

c. The amount represents the first tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration. The first tranche, with an aggregate principal amount of P20,000,000, was issued and listed on the PDEx for trading on December 22, 2017 at the issue price of 100% of face value. It comes in three series, with terms and interest rates as follows:

	Term	Interest Rate Per Annum
Series D Bonds	5 years, due 2022	5.3750%
Series E Bonds	7 years, due 2024	6.2500%
Series F Bonds	10 years, due 2027	6.6250%

   Interest on the Bonds shall be payable quarterly in arrears every March 22, June 22, September 22 and December 22 of each year starting March 22, 2018 as the first interest payment date.

   Proceeds from the issuance were used by the Parent Company to refinance its P20,000,000 short-term loans obtained from local banks in 2017.

d. The amount represents the Parent Company's fixed rate bonds issued with an aggregate amount of P15,000,000. The Bonds were issued and listed in the PDEx on July 11, 2016 at the issue price of 100% of face value in three series with terms and interest rates as follows:

	Term	**Interest Rate Per Annum**
Series A Bonds	5 years, due 2021	4.3458%
Series B Bonds	7 years, due 2023	4.7575%
Series C Bonds	10 years, due 2026	5.1792%

Interest is payable quarterly in arrears every January 11, April 11, July 11 and October 11 of each year starting October 11, 2016, as the first interest payment date.

The net proceeds were used on July 25, 2016 to refinance the US$300,000 short-term loan provided by a local bank of which the proceeds were used for the redemption of the US$300,000 bond in January 2016.

e. The amount represents the remaining balance of a P15,000,000, fixed rate 7-year Term Loan Facility availed by the Parent Company on April 26, 2017 from a local bank. Interest is payable quarterly in arrears on the last day of the agreed interest period. Principal repayment shall be in 14 semi-annual installments starting at the end of the first year from drawdown date. The proceeds were used to fund the payment of the remaining US$300,000 out of the US$700,000 term loan.

f. The amount represents the US$700,000 floating interest term loan availed by the Parent Company from a syndicate of foreign banks on March 16, 2018. The US$700,000 is divided into Facility A Loan amounting to US$200,000 maturing on March 12, 2021 and Facility B Loan amounting to US$500,000 maturing on March 13, 2023. The proceeds were used to partially finance the acquisition of the Masinloc Group (Note 5).

g. The amount represents the remaining balance of the P42,000,000 and P2,000,000 drawn by SCPC on June 28, 2017 and January 31, 2018, respectively, from a P44,000,000, 12-year Omnibus Loan and Security Agreement ("OLSA") with a syndicate of local banks dated June 22, 2017. The proceeds were used mainly by SCPC for the following purposes:

    i. the settlement of the US$360,000 short-term loan availed on May 8, 2017 from a local bank;

    ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant from Lumiere Energy Technologies Inc.; and

    iii. the repayment of advances from the Parent Company.

h. The amount represents the remaining balance of the P20,322,000 and P978,000 drawn by SMCPC in tranches on August 17, 2018 and July 31, 2019, respectively, from a P21,300,000, 12-year OLSA with a syndicate of local banks, signed on August 9, 2018. The loan is payable in 47 quarterly installments up to August 2030. The proceeds were used mainly by SMCPC for the following purposes:

    i. the repayment in full of the P5,930,000 short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant;

ii. the partial financing of the remaining works for the project;

iii. the repayment of advances from the Parent Company; and

iv. the payment of transaction-related fees and expenses.

i. The amount represents the US$259,200 total outstanding loan drawn in tranches by MPPCL from its Omnibus Refinancing Agreement ("ORA"), dated December 28, 2012, with local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from Power Sector Assets and Liabilities Management Corporation ("PSALM") by MPPCL on August 22, 2007. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to January 23, 2023.

j. The amount represents the balance drawn in tranches by MPPCL from its US$525,000 Omnibus Expansion Financing Agreement ("OEFA") dated December 1, 2015, with local banks, to finance the construction of the additional 335 MW (gross) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 15, 2030.

   On March 31, 2020, MPPCL drew US$43,000 (equivalent to P2,179,240) from the OEFA.

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

The fair value of the Bonds, amounting to P84,719,166 and P86,716,963 as at March 31, 2020 and December 31, 2019, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

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

The loans of SCPC and SMCPC are secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC and SMCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCPC. The loans of MPPCL obtained from its ORA and OEFA are secured by real estate and chattel mortgages on all present assets (purchased under its asset purchase agreement, and all its rights in a land lease agreement, with PSALM) and all future assets as defined in its loan agreements.

As at March 31, 2020 and December 31, 2019, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Balance at beginning of year	**P2,757,848**	P2,992,252
Currency translation adjustments	**452**	(18,272)
Additions	**-**	549,248
Capitalized amount	**(16,100)**	(46,464)
Amortization	**(132,825)**	(718,916)
Balance at end of year	**P2,609,375**	P2,757,848

Repayment Schedule

The annual maturities of the long-term debt are as follows:

	Gross Amount				
Year	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Debt Issue Costs**	**Net**
April 1, 2020 to March 31, 2021	US$266,948	P13,528,925	P3,238,392	P272,817	P16,494,500
April 1, 2021 to March 31, 2022	71,517	3,624,488	9,951,855	215,234	13,361,109
April 1, 2022 to March 31, 2023	700,541	35,503,409	27,787,064	777,932	62,512,541
April 1, 2023 to March 31, 2024	30,431	1,542,252	23,391,684	341,450	24,592,486
April 1, 2024 to March 31, 2025	31,845	1,613,922	34,317,304	299,028	35,632,198
April 1, 2025 to thereafter	382,476	19,383,860	57,331,336	702,914	76,012,282
	US$1,483,758	**P75,196,856**	**P156,017,635**	**P2,609,375**	**P228,605,116**

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 15.

11. Significant Agreements and Lease Commitments

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

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

The IPPA Agreements are with the conformity of 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 P5,752,669 and P7,252,651 for the periods ended March 31, 2020 and 2019, respectively. SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305, which will expire on November 3, 2020 and January 25, 2021, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 17).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P1,641,439 and P1,928,793 for the periods ended March 31, 2020 and 2019, respectively.

Maturity analysis of lease payments as at March 31, 2020 and December 31, 2019 are disclosed in Note 15.

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of a 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P15,653.

The lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P786 and P195 for the periods ended March 31, 2020 and 2019, respectively.

Upon adoption of PFRS 16, adjustment pertaining to MPPCL's land under lease arrangement amounted to P127,077 as at January 1, 2019. MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position, amounted to P108,147 as at December 31, 2019 (Note 8).

Maturity analysis of lease payments as at March 31, 2020 and December 31, 2019 are disclosed in Note 15.

12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is computed as follows:

	March 31	
	2020	2019
Net income attributable to equity holders of the Parent Company	**P3,220,285**	P3,588,962
Distributions to Undated Subordinated Capital Securities ("USCS") holders for the period	**(367,248)**	(800,815)
Distributions to Redeemable Perpetual Securities ("RPS") holder for the period	**(513,872)**	(530,960)
Distributions to Senior Perpetual Capital Securities ("SPCS") holders for the period	**(1,892,355)**	-
Net income attributable to common shareholders of the Parent Company(a)	**446,810**	2,257,187
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/Diluted Earnings Per Share (a/b)	**P0.36**	P1.81

As at March 31, 2020 and 2019, the Group has no dilutive debt or equity.

13. Distributions

Distributions to USCS Holders
The Parent Company issued and listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US$600,000	**P26,933,565**

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

On November 7, 2019 (the “Step-Up Date”), the Parent Company completed the redemption of the US$300,000 USCS, issued on May 7, 2014, pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US$300,000 USCS, dated September 27, 2019. The redemption price of the US$300,000 USCS includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The US$300,000 USCS was redeemed using in part the proceeds of the US$500,000 SPCS issued on April 25, 2019.

In February 2020 and 2019, the Parent Company paid cash distributions amounting to P735,220 and P757,133, respectively, to holders of the US$300,000 USCS issued in August 2015.

Distributions to RPS Holder

On March 16, 2018, the Parent Company issued the RPS at an issue price of 100% amounting to US$650,000 (equivalent to P32,751,570, net of issuance costs) in favor of SMC, the Security Holder.

The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. The Security Holder shall have the right to receive distribution at the rate of 6.25% per annum, payable quarterly in arrears every March 16, June 16, September 16 and December 16 of each year commencing on June 16, 2018. The Parent Company has a right to defer this distribution under certain conditions.

The proceeds were used to partially finance the acquisition of the Masinloc Group by the Parent Company in 2018.

In March 2020 and 2019, the Parent Company paid cash distributions amounting to P513,703 and P530,512, respectively, to the Security Holder.

Distributions to SPCS Holders

The Parent Company issued and listed on the SGX-ST the following SPCS:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Issue price	Amount of SPCS Issued	Amount in Philippine Peso*
November 5, 2019	May 5 and November 5 of each year	5.95% per annum	May 5, 2025	100.000%	US$500,000	P24,834,696
July 3, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	102.052%	300,000	15,440,347
April 25, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	100.000%	500,000	25,610,522
January 21, 2020	January 21 and July 21 of each year	5.70% per annum	January 21, 2026	100.000%	600,000	30,170,062
					US$1,900,000	**P96,055,627**

**Pertains to proceeds net of directly attributable transaction costs*

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of the Parent Company with no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on Step-Up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds were used by the Parent Company for the redemption of the US$300,000 USCS in November 2019 and will be applied for the repayment of indebtedness, for general corporate purposes, including capital expenditures and investments in power-related assets and for the development of battery energy storage systems projects.

14. Other Income (Charges)

Other income (charges) consist of:

	March 31	
	2020	2019
Income for liquidated damages	**P1,931,250**	P -
Construction revenue	**27,779**	144,481
Construction cost	**(27,779)**	(144,481)
Foreign exchange gain (losses) - net	**(240,297)**	23,313
Miscellaneous income - net	**32,066**	104,442
	P1,723,019	P127,755

Income for liquidated damages pertains to the probable amount, based on the assessment of Management, to be recovered from a third party contractor to compensate the Group for the delay in the construction and completion of a power plant unit of one of its subsidiaries. As at reporting date, the Group and the EPC Contractor are still finalizing the Settlement Agreement which provides among others the pertinent details on the said liquidated damages.

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 mostly pertains to management fee, rental income, utilities income and market to market gain (loss) on derivatives.

15. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

Interest Rate Risk Table

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

March 31, 2020 (Unaudited)	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P3,238,392	P9,951,855	P27,787,064	P23,391,684	P34,317,304	P57,331,336	P156,017,635
Interest rate	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	6.2500% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated							
(expressed in Philippine peso)	2,547,656	2,723,999	7,628,531	1,163,081	1,217,131	14,573,541	29,853,939
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959%	5.5959%	5.5959%	
Floating Rate							
Foreign currency-denominated							
(expressed in Philippine peso)	10,981,269	900,489	27,874,878	379,171	396,791	4,810,319	45,342,917
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P16,767,317	P13,576,343	P63,290,473	P24,933,936	P35,931,226	P76,715,196	P231,214,491

December 31, 2019 (Audited)	< 1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,955,892	P9,894,142	P27,729,564	P23,292,184	P34,259,804	P58,472,522	P156,604,108
Interest rate	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	6.2500% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated (expressed in Philippine peso)	2,467,402	2,637,690	1,891,416	6,708,224	1,116,430	13,367,781	28,188,943
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	818,871	11,002,285	626,288	27,549,098	367,459	4,399,837	44,763,838
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P6,242,165	P23,534,117	P30,247,268	P57,549,506	P35,743,693	P76,240,140	P229,556,889

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P113,357 and P447,638 for the period ended March 31, 2020 and for the year ended December 31, 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

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

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

		March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*4*	**US$1,601,922**	**P81,185,395**	US$1,194,851	P60,501,300
Trade and other receivables	*5*	**191,662**	**9,713,464**	168,231	8,518,354
		1,793,584	**90,898,859**	1,363,082	69,019,654
Liabilities					
Loans payable		**45,000**	**2,280,600**	45,000	2,278,575
Accounts payable and accrued expenses		**249,518**	**12,645,562**	187,444	9,491,242
Long-term debt (including current maturities)	*10*	**1,483,758**	**75,196,856**	1,440,758	72,952,781
Lease liabilities (including current portion)	*11*	**1,219,707**	**61,814,760**	1,281,646	64,896,116
Other noncurrent liabilities		**4,815**	**244,042**	6,026	305,132
		3,002,798	**152,181,820**	2,960,874	149,923,846
Net foreign currency-denominated monetary liabilities		**US$1,209,214**	**P61,282,961**	US$1,597,792	P80,904,192

The Group reported net gains (losses) on foreign exchange amounting to (P240,297) loss and P23,313 gain for the periods ended March 31, 2020 and 2019, respectively, with the translation of its foreign currency-denominated assets and liabilities.

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, 2020	**50.68**
December 31, 2019	50.64
March 31, 2019	52.50
December 31, 2018	52.58

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
March 31, 2020 (Unaudited)	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,522,675)**	**(P1,117,291)**	**P1,522,675**	**P1,117,291**
Trade and other receivables	**(70,550)**	**(170,494)**	**70,550**	**170,494**
	(1,593,225)	**(1,287,785)**	**1,593,225**	**1,287,785**
Loans payable	**-**	**45,000**	**-**	**(45,000)**
Accounts payable and accrued expenses	**139,415**	**208,830**	**(139,415)**	**(208,830)**
Long-term debt (including current maturities)	**700,000**	**1,273,758**	**(700,000)**	**(1,273,758)**
Lease liabilities (including current portion)	**1,218,312**	**854,213**	**(1,218,312)**	**(854,213)**
Other noncurrent liabilities	**1,936**	**4,234**	**(1,936)**	**(4,234)**
	2,059,663	**2,386,035**	**(2,059,663)**	**(2,386,035)**
	P466,438	**P1,098,250**	**(P466,438)**	**(P1,098,250)**

December 31, 2019 (Audited)	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,145,911)	(P851,078)	P1,145,911	P851,078
Trade and other receivables	(71,623)	(146,744)	71,623	146,744
	(1,217,534)	(997,822)	1,217,534	997,822
Loans payable	-	45,000	-	(45,000)
Accounts payable and accrued expenses	82,441	162,712	(82,441)	(162,712)
Long-term debt (including current maturities)	700,000	1,230,758	(700,000)	(1,230,758)
Lease liabilities (including current portion)	1,280,252	897,570	(1,280,252)	(897,570)
Other noncurrent liabilities	3,157	5,079	(3,157)	(5,079)
	2,065,850	2,341,119	(2,065,850)	(2,341,119)
	P848,316	P1,343,297	(P848,316)	(P1,343,297)

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

Commodity Price Risk

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

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

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group’s objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management:

March 31, 2020 (Unaudited)	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P98,201,827**	**P98,201,827**	**P 98,201,827**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**36,276,867**	**36,276,867**	**36,276,867**	**-**	**-**	**-**
Derivative assets designated as cash flow hedge (included under "Prepaid expense and other current assets" and "Other noncurrent assets" account)	**105,301**	**105,301**	**22,259**	**-**	**83,042**	**-**
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**453,486**	**476,582**	**31,507**	**99,652**	**99,596**	**245,827**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**10,273,289**	**10,273,289**	**2,575,752**	**6,393,257**	**25**	**1,304,255**
Financial Liabilities						
Loans payable	**2,280,600**	**2,294,801**	**2,294,801**	**-**	**-**	**-**
Accounts payable and accrued expenses*	**26,548,555**	**26,548,555**	**26,548,555**	**-**	**-**	**-**
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**15,473**	**15,473**	**15,473**	**-**	**-**	**-**
Long-term debt - net (including current maturities)	**228,605,116**	**296,076,950**	**29,682,147**	**25,678,136**	**148,245,965**	**92,470,702**
Lease liabilities (including current portion)	**118,837,149**	**137,593,596**	**29,332,753**	**30,086,244**	**57,322,582**	**20,852,017**
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**1,192,480**	**1,200,860**	**48,991**	**37,611**	**626,269**	**487,989**

**Excluding statutory receivables and payables*

December 31, 2019 (Audited)	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P79,954,187	P79,954,187	P79,954,187	P -	P -	P -
Trade and other receivables - net*	29,834,844	29,834,844	29,834,844	-	-	-
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	676	676	676	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	75,518	75,518	-	18,303	57,215	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	454,481	476,180	37,758	49,348	148,402	240,672
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	6,689,975	6,689,975	1,786,229	3,773,041	15	1,130,690
Financial Liabilities						
Loans payable	2,278,575	2,285,429	2,285,429	-	-	-
Accounts payable and accrued expenses*	26,971,319	26,971,319	26,971,319	-	-	-
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	18,636	18,636	18,636	-	-	-
Long-term debt - net (including current maturities)	226,799,041	297,630,115	19,478,009	35,982,049	149,303,961	92,866,096
Lease liabilities (including current portion)	124,202,679	148,521,035	29,381,197	29,640,341	64,063,341	25,436,156
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	930,437	982,408	49,730	20,210	410,180	502,288

**Excluding statutory receivables and payables*

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

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

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

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

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

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

	Note	**March 31, 2020 (Unaudited)**	December 31, 2019 (Audited)
Cash and cash equivalents (excluding cash on hand)	*4*	**P98,199,711**	P79,951,936
Trade and other receivables - net*	*5*	**36,276,867**	29,834,844
Derivative assets not designated as cash flow hedge		**-**	676
Derivative assets designated as cash flow hedge		**105,301**	75,518
Noncurrent receivables	*6*	**453,486**	454,481
Restricted cash	*9*	**10,273,289**	6,689,975
		P145,308,654	P117,007,430

**Excluding statutory receivables*

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

March 31, 2020 (Unaudited)	**Financial Assets at Amortized Cost** 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P98,199,711**	**P -**	**P -**	**P -**	**P -**	**P98,199,711**
Trade and other receivables	**-**	**36,276,867**	**2,828,700**	**-**	**-**	**39,105,567**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**105,301**	**105,301**
Noncurrent receivables	**-**	**453,486**	**-**	**-**	**-**	**453,486**
Restricted cash	**10,273,289**	**-**	**-**	**-**	**-**	**10,273,289**
	P108,473,000	**P36,730,353**	**P2,828,700**	**P -**	**P105,301**	**P148,137,354**

December 31, 2019 (Audited)	Financial Assets at Amortized Cost 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P79,951,936	P -	P -	P -	P -	P79,951,936
Trade and other receivables	-	29,834,844	2,828,484	-	-	32,663,328
Derivative assets not designated as cash flow hedge	-	-	-	676	-	676
Derivative assets designated as cash flow hedge	-	-	-	-	75,518	75,518
Noncurrent receivables	-	454,481	-	-	-	454,481
Restricted cash	6,689,975	-	-	-	-	6,689,975
	P86,641,911	P30,289,325	P2,828,484	P676	P75,518	P119,835,914

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

The aging of trade and other receivables is as follows:

	March 31, 2020 (Unaudited)				December 31, 2019 (Audited)			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P11,290,863**	**P3,339,120**	**P682,445**	**P15,312,428**	P11,055,287	P1,627,887	P852,680	P13,535,854
Past due:								
1-30 days	**5,778,206**	**16,511**	**434,006**	**6,228,723**	1,709,774	182,485	448,747	2,341,006
31-60 days	**1,109,894**	**4,606**	**42,692**	**1,157,192**	728,531	62,108	895	791,534
61-90 days	**246,699**	**57,876**	**57,384**	**361,959**	127,899	57,845	1,200	186,944
Over 90 days	**8,025,480**	**7,341,036**	**678,749**	**16,045,265**	7,899,428	7,339,194	569,368	15,807,990
	P26,451,142	**P10,759,149**	**P1,895,276**	**P39,105,567**	P21,520,919	P9,269,519	P1,872,890	P32,663,328

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

The credit risk for cash and cash equivalents, investment in debt instruments, derivative assets and restricted cash is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 37% and 48% of the Group's total revenues for the periods ended March 31, 2020 and 2019.

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

Other Market Price Risk

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

Capital Management

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

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

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

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

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

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

16. Financial Assets and Financial Liabilities

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 fair value through profit or loss (FVPL), includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets
The Group classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Group for managing the financial assets.

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

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

- the stated policies and objectives for the portfolio and the operations of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

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

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

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

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

The Group's derivative asset that is designated as cash flow hedge is classified under this category.

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

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

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

The Group's derivative assets that are not designated as cash flow hedge are classified under this category.

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

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

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

The Group's derivative liability that are not designated as cash flow hedge are classified under this category.

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

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2020 (Unaudited)		December 31, 2019 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P98,201,827**	**P98,201,827**	P79,954,187	P79,954,187
Trade and other receivables - net*	**36,276,867**	**36,276,867**	29,834,844	29,834,844
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	**-**	**-**	676	676
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	**105,301**	**105,301**	75,518	75,518
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**453,486**	**453,486**	454,481	454,481
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**10,273,289**	**10,273,289**	6,689,975	6,689,975
	P145,310,770	**P145,310,770**	P117,009,681	P117,009,681
Financial Liabilities				
Loans payable	**P2,280,600**	**P2,280,600**	P2,278,575	P2,278,575
Accounts payable and accrued expenses*	**26,548,555**	**26,548,555**	26,971,319	26,971,319
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**15,473**	**15,473**	18,636	18,636
Long-term debt - net (including current maturities)	**228,605,116**	**252,315,297**	226,799,041	250,190,405
Lease liabilities (including current portion)	**118,837,149**	**118,837,149**	124,202,679	124,202,679
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**1,192,480**	**1,192,480**	930,437	937,562
	P377,479,373	**P401,189,554**	P381,200,687	P404,599,176

**Excluding statutory receivables and payables*

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

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

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

Loans Payable and Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 3.10% to 4.88% and 3.09% to 4.52% as at March 31, 2020 and December 31, 2019, respectively. Discount rates used for foreign currency-denominated loans range from 0.24% to 1.14% and 1.59% to 1.97% as at March 31, 2020 and December 31, 2019, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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

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

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

<u>Derivative Instruments Accounted for as Cash Flow Hedges</u>
Call Spread Swaps
As at March 31, 2020 and December 31, 2019, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. As at March 31, 2020, the positive fair value of the call spread swaps, included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts amounted to P22,259 and P83,042, respectively. As at December 31, 2019, the positive fair value of the call spread swaps amounted to P75,518, included under "Other noncurrent assets" account.

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

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance	**(P39,910)**	(P1,844)
Changes in fair value of derivatives	**29,783**	(88,112)
Amount reclassified to profit or loss:		
Interest expense and other financing charges	**12,385**	50,836
Reversal of prior year income tax benefit	**-**	(790)
Ending balance	**P2,258**	(P39,910)

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the periods ended March 31, 2020 and for the year ended December 31, 2019.

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$100,000 and US$90,000 as at March 31, 2020 and December 31, 2019, respectively. The negative fair value of these currency forwards amounted to P10,470 and P15,225 as at March 31, 2020 and December 31, 2019, respectively.

Commodity Swaps

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2020. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 45,000 metric tons and 233,000 metric tons as at March 31, 2020 and December 31, 2019, respectively. The net negative fair value of these commodity swaps amounted to P5,003 and P2,735 as at March 31, 2020 and December 31, 2019, respectively.

The Group recognized marked-to-market losses from freestanding derivatives amounting to P6,286 and P27,514 for the periods ended March 31, 2020 and 2019, respectively (Note 14).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Beginning balance	**P57,558**	P258,850
Net change in fair value of derivatives:		
Designated as accounting hedge	**29,783**	(88,112)
Not designated as accounting hedge	**(6,286)**	(264,824)
	81,055	(94,086)
Less fair value of settled instruments	**(8,773)**	(151,644)
Ending balance	**P89,828**	P57,558

Fair Value Measurements

The Group measures financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

17. 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 Philippine Electricity Market Corporation ("PEMC") and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the SC.

ii. *Energy Regulatory Commission ("ERC") Order Voiding WESM Prices*

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

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

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

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

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

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

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

On March 29, 2019, the CA issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

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

MPPCL filed on January 22, 2020, while SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the SC. In its petition, the ERC appealed the CA Decision of November 8, 2017 and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

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

iii. *Generation Payments to PSALM*

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

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

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

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

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

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

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

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

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

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

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

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

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

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion in March 2020.

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

iv. *Criminal Cases*

SPPC

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

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

SMEC

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

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

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

v. *Civil Cases*

SMEC

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

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

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

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration ("MR") to the May 22, 2018 order which dismissed the consignation case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM's Comment on August 13, 2018.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this recusal, the resolution of the MR remains pending to date.

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

As at March 31, 2020 and December 31, 2019, the total amount consigned with the RTC Pasig is P491,242, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position.

b. Significant Transaction

Issuance of Senior Perpetual Capital Securities ("SPCS")

On January 21, 2020, the Parent Company issued US$600,000 SPCS (the "Securities"), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The Securities was listed on the SGX-ST on January 22, 2020.

The net proceeds from the issue of the Securities will be applied by the Parent Company for the funding requirements of the development and completion of its battery energy storage systems projects and for general corporate purposes.

c. Others

i. Effect of Corona Virus Disease 2019 (COVID-19)

The President of the Philippines declared under, Proclamation No. 922 dated March 8, 2020 and Proclamation No. 929 dated March 16, 2020, a state of public health emergency and a state of calamity, respectively, throughout the Philippines due to the COVID-19 pandemic and imposed an Enhanced Community Quarantine (the “ECQ”) across the entire island of Luzon effective March 17, 2020 until April 12, 2020. Executive Order No. 112 dated April 30, 2020 further extended the ECQ in the NCR and other provinces until May 15, 2020.

Consequently, industrial demand in the Grid decreased significantly during the ECQ period. On the other hand, most utility companies maintained their demand at historical levels, representing primarily residential and small-scale industrial demand. From the Group’s perspective, its bilateral energy volumes emanate mainly from contracted capacity with utility companies. Their power supply agreements mostly require a take-or-pay arrangement or impose minimum offtake volumes which thus allow the Group to continuously bill these customers at the pertinent contracted volumes during the ECQ period.

The day-to-day operations of the Group, being primarily engaged in power generation, are not significantly affected by the ECQ declaration because the Government considers power generation as an essential service and thus allows the continuation of ongoing activities related thereto. As a result, the Group’s power generation activities and the ongoing repairs and maintenance works remain unhampered. As a critical safety measure to prevent the spread of COVID 19 cases but ensure operational resiliency, power plant personnel stay in the plant premises and are provided with the necessary accommodations, including food and other essential supplies, during the ECQ period. On the other hand, support functions have been placed under flexible work arrangements (i.e. work from home, skeletal work force). The foregoing measures allow the Group to operate its power plant portfolio continuously and at levels sufficient to meet its the bilateral volume commitments to its customers notwithstanding economic and logistical challenges faced during the ECQ period. The Group thus expects to maintain its budgeted financial performance for the rest of the year.

The primary regulators in the local power industry, the ERC and the DOE issued separate advisories allowing deferred payment of power bills falling due within the ECQ period, which may be paid over four equal monthly installments. Nevertheless, with the consolidated unrestricted cash and cash equivalent of P98.20 Billion as at March 31, 2020, the Group has sufficient funds to continue settling its obligations as they fall due even without the benefit of a corresponding deferral as may be allowed by the regulators, while accommodating the deferred payment schemes availed of by its customers.

The Group continues to review and will implement the necessary changes to its operations and business processes as well as its capex plans in view of the global and local economic factors as a result of the COVID 19 pandemic. The Group places equal importance to maintaining and, in certain aspects, even improving its financial position and financial performance during the ECQ period and for the rest of the year.

ii. 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.

iii. There were no material changes in estimates of amounts reported in prior financial years.

iv. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

v. 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 other than the stated expected effect of the COVID-19 Pandemic.

vi. 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.

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

viii. 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.

ix. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at March 31, 2020. These consist of construction of power plants and battery energy storage systems in line with the Group's expansion projects and acquisition of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash and proceeds of availed long-term loans and issued bonds and SPCS.

The outstanding purchase commitments of the Group amounted to P13,723,593 as at March 31, 2020.

Amount authorized but not yet disbursed for capital projects as at March 31, 2020 is approximately P39,006,745.

C O V E R   S H E E T

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 8 - 0 1 0 9 9

COMPANY NAME

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES

(A Wholly-owned Subsidiary of San Miguel Corporation)

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

155 EDSA, Brgy. Wack-Wack

Mandaluyong City

Metro Manila

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
N/A	702-4500	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8	June / 1st Tuesday	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Paul Bernard D. Causon	pcauson@smcgph.sanmiguel.com.ph	702-4500	N/A

CONTACT PERSON's ADDRESS

19th Flr. San Miguel Properties Center Building, No.7 St. Francis St., Mandaluyong City

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

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

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
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 of March 31, 2020 and December 31, 2019 for liquidity, solvency and profitability ratios and for the periods ended March 31, 2020 and 2019 for operating efficiency ratios.

LIQUIDITY RATIO

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

(in Millions P)	*Conventional* March 2020	*Conventional* December 2019	*Adjusted* [1] March 2020	*Adjusted* [1] December 2019
(A) Current Assets	**164,064**	138,619	**164,064**	138,619
(B) Current Liabilities	**77,976**	67,018	**54,573**	44,026
Current Ratio (A) / (B)	**2.10**	2.07	**3.01**	3.15

(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, 2020 and December 31, 2019, current portion of lease liabilities amounted to P23,403 million and P22,992 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 P)	March 2020	December 2019
(A) Net Debt [2]	**196,983**	217,523
(B) Total Equity [3]	**181,646**	150,590
Net Debt-to-Equity Ratio (A) / (B)	**1.08**	1.44

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

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

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

(in Millions P)	*Conventional* **March 2020**	*Conventional* December 2019	*Adjusted* [4] **March 2020**	*Adjusted* [4] December 2019
(A) Total Assets	**587,401**	557,119	**426,497**	394,918
(B) Total Equity	**185,613**	153,425	**185,613**	153,425
Asset-to-Equity Ratio (A) / (B)	**3.16**	3.63	**2.30**	2.57

(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 finance lease liabilities. As at March 31, 2020 and December 31, 2019, net carrying amount of IPPA power plant assets amounted to P160,904 million and P162,201 million, respectively.

<u>PROFITABILTY RATIO</u>

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

(in Millions P)	**March 2020**	December 2019
(A) Net Income [5]	**14,005**	14,364
(B) Total Equity	**185,613**	153,425
Return on Equity (A) / (B)	**7.5%**	9.4%

(5) Annualized for quarterly reporting.

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

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	**March 2020**	December 2019
(A) EBITDA [6]	**34,406**	34,995
(B) Interest Expense [7]	**14,570**	14,865
Interest Coverage Ratio (A) / (B)	**2.36**	2.35

(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) = $\dfrac{\text{Current Period Offtake Volume}}{\text{Prior Period Offtake Volume}} - 1$

(in GWh)	Periods Ended March 31 **2020**	2019
(A) Current Period Offtake Volume	**6,600**	6,826
(B) Prior Period Offtake Volume	**6,826**	4,792
Volume Growth (Decline) [(A / B) – 1]	**(3.3%)**	42.4%

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

(in Millions P)	Periods Ended March 31 **2020**	2019
(A) Current Period Revenue	**28,298**	34,676
(B) Prior Period Revenue	**34,676**	24,661
Revenue Growth (Decline) [(A / B) – 1]	**(18.4%)**	40.6%

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

(in Millions P)	Periods Ended March 31 **2020**	2019
(A) Income from Operating Activities	**7,823**	9,841
(B) Revenues	**28,298**	34,676
Operating Margin (A) / (B)	**27.6%**	28.4%

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 of and for the period ended March 31, 2020 (with comparative figures as of December 31, 2019 and for the period ended March 31, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2020 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LOAN TO FINANCE CAPEX/PROJECT

- *Masinloc Power Partners Co. Ltd ("MPPCL")*

  On March 31, 2020, MPPCL drew US$43 million (equivalent to P2,179 million) from the US$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 megawatts ("MW", Unit 3 of Masinloc Power Plant) coal-fired plant within its existing facilities. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month London Interbank Offered Rate plus margin with maturities up to December 2030.

PAYMENT OF MATURING LOANS AVAILED TO FINANCE CAPEX/PROJECTS

- *San Miguel Consolidated Power Corporation ("SMCPC")*

  On February 17, 2020, SMCPC partially paid P324 million out of the P21,300 million, 12-year term loan, pursuant to the terms and conditions of its Omnibus Loan and Security Agreement ("OLSA") with various local banks dated August 9, 2018. The proceeds of the loan were used mainly by SMCPC for the (i) repayment in full of its P5,930 million short-term loan availed to fund the design, construction and operation of the 2 x 150 MW coal-fired Davao Greenfield Power Plant, (ii) partial financing of the remaining works for the project, and (iii) repayment of advances from the Parent Company.

  As of March 31, 2020, SMCPC has partially paid a total of P1,620 million pursuant to the terms and conditions of the OLSA.

- *SMC Consolidated Power Corporation ("SCPC")*

  On March 30, 2020, SCPC paid an additional P263 million to the first tranche of the P44,000 million term loan, pursuant to the terms and conditions of its OLSA with various local banks dated June 22, 2017. The proceeds of the loan were used in part to finance the construction of the 2 x 150 MW coal-fired Limay Greenfield Power Plant (Phase II - Units 3 and 4).

  As of March 31, 2020, SCPC has partially paid a total of P2,363 million pursuant to the terms and conditions of the OLSA.

SENIOR PERPETUAL CAPITAL SECURITIES

- *Issuance of Senior Perpetual Capital Securities (SPCS) by SMC Global Power*

  On January 21, 2020, SMC Global Power issued US$600 million SPCS (the "Securities", equivalent to P30,170 million) at an issue price of 100%, with an initial rate of distribution of 5.7% per annum. The Securities was listed on the Singapore Exchange Securities Trading Limited on January 22, 2020. The net proceeds from the issue of the Securities will be applied by SMC Global Power for the funding requirements of the development and completion of its battery energy storage systems (BESS) projects and for general corporate purposes.

  Apart from pursuing coal projects, SMC Global Power is also focused on investing in BESS and renewable energy projects as part of its objective to operate in an environmentally-responsible manner while considering energy security and affordability.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

Revenues

The Group's consolidated revenues for the first quarter of 2020 registered at P28,298 million, 18% or P6,378 million lower than last year's P34,676 million for the same period. The decrease was driven by: (i) the decline in bilateral offtake volume of South Premiere Power Corp. ("SPPC") due to lower Meralco nominations; (ii) lower average sales prices under the new Power Supply Agreements (PSA) of SPPC and San Miguel Energy Corporation ("SMEC") with Meralco effective December 31, 2019; (iii) lower average sales prices of MPPCL for its bilateral offtake volume; (iv) lower average spot prices for Luzon-based power plants; moderated by (v) higher revenues of SMCPC and SCPC mainly on account of the increase in its bilateral offtake volume; and (v) increase in spot sales volume of MPPCL and Strategic Power Devt. Corp. ("SPDC").

Cost of Power Sold

Cost of power sold likewise decreased by 17% or P3,959 million, from P22,924 million for the first quarter of 2019 to P18,965 million. The decrease was mainly attributable to the following: (i) lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant; (ii) lower average cost of coal prices for Sual and Masinloc Power Plants as coal indices continue to decline; (iii) lower average cost of spot purchases; offset by (iv) higher power purchases of SCPC and SMCPC to meet its customer requirements; and (v) higher costs incurred by SCPC on account of the full-quarter operations of Limay Unit 4, with capacity of 150 MW, which commenced commercial operations on July 26, 2019.

Selling and Administrative Expenses

Selling and administrative expenses decreased by 21% or P402 million, from P1,912 million for the first quarter of 2019 to P1,510 million for the same period of 2020. The decrease was due mainly to (i) lower contributions to registered donee institutions for programs on education and environment, and (ii) lower business taxes paid by MPPCL, SMEC and SMC Global Power.

Income from Operations

As a result, consolidated income from operations of P7,823 million for the first quarter of 2020, declined by 21% or P2,018 million, from last year's P9,841 million.

Other Income (Charges)

Interest income surged by 220% or P320 million, from P146 million in 2019 to P466 million in 2020, driven primarily by higher average balance of cash and cash equivalents from the net proceeds of the US$600 million SPCS issuance in January 2020.

Interest expense and other financing charges decreased by 2% or P92 million from last year's P4,874 million to P4,782 million in 2020 due mainly to lower interest recognized (i) on the Independent Power Producer Administrator (“IPPA”) entities’ finance lease liabilities due to declining principal balance; (ii) on loans payable since SMC Global Power settled its US$120 million short-term loan in April 2019; and partially offset by higher interest expense (iii) on long-term borrowings due to the issuance of another P30,000 million fixed rate bonds in April 2019 by SMC Global Power; and (iv) with SCPC’s cessation of the capitalization of borrowing costs related to the construction of Limay Unit 4 which started commercial operations in July 2019.

Equity in net losses of associates and joint ventures declined from P163 million earnings for the first quarter of 2019 to P159 million loss for the same period 2020 due to the negative bottom line of Angat Hydropower Corporation (“AHC”) for the first quarter of 2020.

Other income significantly increased by P1,595 million due primarily to (i) the recognition of P1,931 million in liquidated damages from a third party contractor which compensates the Group for any lost margins from the delay in the completion and start of commercial operations of Unit 3 of the Masinloc Power Plant; and offset by (ii) the net foreign exchange loss of P240 million recognized in 2020, arising mainly from the Group’s US dollar-denominated liabilities, was a complete turnaround from last year's P23 million gain, due to the depreciation of the Philippine peso against the US dollar during the first quarter of 2020 by P0.04 (from P50.64 to P50.68) vs the appreciation of Philippine peso experienced for the same period last year by P0.08 (from P52.58 to P52.50).

Income Tax Expense

Income tax expense slightly increased by 1%, or P27 million, from last year's P1,824 million to P1,851 million this year. The increase was due to (i) higher provision for deferred income tax expense recognized by (a) the IPPA entities’ on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (“PSALM”) over the finance lease liability-related expenses, and (b) MPPCL on its unrealized foreign exchange gain; (ii) higher provision for final tax driven by the increase in interest income on cash and cash equivalents; and offset by (iii) lower provision for current income tax recognized by SPPC and MPPCL due to the decline in taxable income.

Net Income

Consequently, the consolidated net income of the Group for the first quarter decreased by 10%, or P358 million, from P3,579 million in 2019 to P3,221 million in 2020. Unrealized foreign exchange gain declined from a P308 million gain recognized in 2019 to a P72 million gain in 2020 brought by the depreciation of the Philippine peso against the US dollar.

2019 vs. 2018

Revenues

The Group's consolidated revenues for the first quarter of 2019 registered at P34,676 million, 41% or P10,015 million higher than the P24,661 million for 2018 same period. The increase was driven mainly by: (i) the revenues contributed by the Masinloc Power Plant's full-quarter operations in 2019 as compared to only 11 days in 2018, counting the days from the acquisition of the Masinloc Group (comprising of SMCGP Masin Pte. Ltd. and subsidiaries, SMCGP Transpower Pte. Ltd. and SMCGP Philippines Inc.) on March 20, 2018; (ii) the revenues from the full-quarter operations of SMCPC's Davao Greenfield Power Plant Unit 2 and of SCPC's Limay Greenfield Power Plant Unit 3 which commenced commercial operations on February 26, 2018 and March 26, 2018, respectively; (iii) the increase in bilateral sales of SPPC due to higher average realization price and higher Meralco nominations resulting from longer operating hours of the Ilijan Power Plant; offset by (iv) the decline in revenues of SMEC due to lower average realization price on account mainly of lower indices of coal; and (v) lower spot sales volume of SPDC brought by an unfavorable hydrological conditions and brief shutdown of San Roque Power Plant from February 15 to 18, 2019.

Cost of Power Sold

Cost of power sold likewise increased by 48% or P7,427 million, from P15,497 million for the first quarter of 2018 to P22,924 million for the same period of 2019. The increase was attributable mainly to the following: (i) costs incurred by MPPCL during its full-quarter operations in 2019; (ii) higher costs incurred by SMCPC and SCPC from the full 3 months operations of the combined additional 2 Units, with capacity of 150 MW each; and (iii) higher energy fees due to longer operating hours of Ilijan and Sual Power Plants and higher average gas price for Ilijan.

Selling and Administrative Expenses

Selling and administrative expenses increased by 63% or P740 million, from P1,172 million for the first quarter of 2018 to P1,912 million in 2019. The increase was due mainly to (i) the additional operating expenses contributed by the newly acquired MPPCL; (ii) higher local business and real property taxes incurred in 2019, and (iii) contributions to registered donee institutions for programs on education and environment.

Income from Operations

As a result, consolidated income from operations of P9,841 million for the first quarter of 2019, grew by 23%, or P1,850 million, from P7,991 million for 2018 same period.

Other Income (Charges)

Net foreign exchange differential, arising mainly from the Group’s United States (US) dollar-denominated liabilities, made a complete turnaround from a P3,437 million loss recognized in 2018 to a P23 million gain in 2019 on account of the appreciation of the Philippine peso against the US dollar during the first quarter of 2019 as compared to the same period in 2018.

Interest expense and other financing charges increased by 43% or P1,459 million due mainly to higher interest expense recognized on: (i) the long-term borrowings obtained by SMC Global Power to partially finance the Masinloc acquisition; (ii) project financing of SCPC and SMCPC; and (iii) existing long-term loans of MPPCL.

Equity in net earnings of associates and joint ventures improved from an P18 million loss in 2018 to a P163 million earnings in 2019 primarily due to the positive bottom line of AHC for the first quarter of 2019 arising mainly from higher average price for its spot sales.

Income Tax Expense

Income tax expense of P1,824 million for the first quarter of 2019 was higher by P1,459 million compared to previous year’s P365 million, mainly as a result of (i) higher provision for deferred income tax expense recognized by the IPPA entities on the temporary difference of monthly fixed payments to PSALM over the finance lease liability-related expenses; (ii) higher provision for current income tax resulting from higher taxable income of MPPCL and SPPC; and offset by (iii) lower provision for income tax recognized by SMEC due to the decline in its taxable income.

Net Income

Consequently, the consolidated net income of the Group for the first quarter increased by 166%, or P2,232 million, from P1,347 million in 2018 to P3,579 million in 2019. Unrealized foreign exchange differential significantly improved from a P1,611 million loss recognized in 2018 to a P308 million gain in 2019 brought by the appreciation of the Philippine peso against the US dollar.

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

1. **POWER GENERATION**

   2020 vs. 2019

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

      For the first quarter of 2020, net generation of 1,492 GWh, at 68% net capacity factor rate, was 20% lower than the same period last year mainly due to lower operating hours (4,143 hours vs 4,202 hours) with higher outages (225 hours vs 118 hours) resulting from tube leaks in certain parts of the power plant and other mechanical issues during the period. Total offtake volume likewise decreased to 2,302 GWh from last year's 2,379 GWh on account of lower spot sales volume.

Revenues of P9,291 million was 14% lower than last year's P10,762 million mainly attributable to lower average realization price for bilateral sales driven by the new PSA with Meralco effective December 26, 2019 at a lower rate, and the impact of lower spot market prices and decline in overall offtake volume.

Operating income of P2,518 million was 40% higher than last year's P1,800 million on account of lower cost for coal, decline in cost of replacement power supplied to bilateral customers, and lower operating expenses, partly offset by lower average realization prices for bilateral and spot sales.

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

The net generation of Ilijan Power Plant for the first quarter of 2020 fell by 12% due to lower plant dispatch under the new PSA with Meralco which became effective on December 26, 2019. Total offtake volume of 1,905 GWh fell by 12% compared to the same period last year due mainly to lower Meralco nominations and WESM sales volume.

Revenues of P7,575 million for the quarter ended March 31, 2020 was 32% lower than 2019 due to lower average realization price from bilateral and spot sales and decline in offtake volume.

Consequently, operating income of P1,507 million in 2020 was 58% lower than the P3,567 million posted in 2019.

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

The San Roque Power Plant's net generation of 138 GWh, at 18% net capacity factor rate, for the first quarter of 2020 declined by 12% attributable to shorter operating hours as a result of low water reservoir level due to unfavorable hydrological conditions. Total offtake volume of 175 GWh likewise decreased by 33% compared to last year.

Revenues for the period decreased by 58% from P1,839 million in 2019 to P765 million in 2020 mainly due to lower average realization price and decline in offtake volume.

The foregoing factors resulted to a drop in operating income by 79% from P746 million in 2019 to P159 million in 2020.

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

With Unit 4, having a 150 MW capacity, commencing commercial operations on July 26, 2019 and with the issuance of a Certificate of Compliance by the Energy Regulatory Commission ("ERC") for the four units, the Limay Greenfield Power Plant now has a combined capacity of 600 MW.

Total generation of the plant from all operating units registered at 784 GWh, at 67% net capacity factor rate, for the first quarter of 2020. This was 26% higher than last year's 622 GWh due to the output of Unit 4, offset by the higher combined outages in 2020 of Units 1, 2 and 3. SCPC dispatched 375 GWh of the plant's net generation to its power generation customers while the rest was dispatched to its Retail Electricity Supplier ("RES") customers. Total offtake volume of 601 GWh exceeded last year by 12% attributed to higher bilateral customers.

For the first quarter of 2020, revenues increased by 13% from P2,472 million last year to P2,803 million in the current year due primarily to higher offtake volume and average realization price. Consequently, operating income of P960 million in 2020 was 49% higher than the P645 million posted in 2019 driven also by the decline in generation costs and average power purchase prices.

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

Units 1 and 2 of the Davao Greenfield Power Plant, with a combined capacity of 300 MW, started commercial operations on July 26, 2017 and February 26, 2018, respectively, following the completion of its testing and commissioning phase and the issuance of a Provisional Authority to Operate ("PAO") by the ERC in favor of both units.

For the first quarter of 2020, a total of 477 GWh was generated by the plant at a capacity factor rate of 83%. This was 13% higher compared to the same period last year. Revenues at P2,946 million slightly topped last year by 9% on account of increase in nominations and load following demand from its existing bilateral customers. This was despite the slight decrease in average realization price due to the effect of capacity-based contracts, i.e., take or pay. Accordingly, operating income registered at P1,214 million, almost the same level as last year.

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

The Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 619 MW, contributed a total net generation of 1,273 GWh for the first quarter of 2020 compared to last year wherein the operations of the plant resulted to 986 GWh. The increase was attributable to lower outages in 2020 as compared to 2019.

Total offtake volume of 1,629 GWh exceeded last year by 25% due primarily to increase spot sales volume, which doubled in 2020. Nonetheless, year-to-date revenues inclusive of ancillary revenues from the 10 MW BESS, and operating income registered at P5,816 million and P1,066 million, posting a decrease from last year by 8% and 23%, respectively, on account of lower average realization prices both for spot and bilateral offtake volume.

2019 vs. 2018

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

For the first quarter of 2019, net generation of 1,864 GWh, at 86% net capacity factor rate, was 21% higher than 2018 same period due to longer operating hours. In 2018, Unit 2 was on maintenance outage for the installation of main transformer from January 18 to February 12, 2018. Total offtake volume increased from 2,109 GWh in 2018 to 2,379 GWh in 2019 due to higher Meralco nominations and higher spot sales.

Despite the increase in offtake volume, revenues of P10,762 million for the first quarter of 2019 was only at par with the P10,774 million revenues posted for 2018 same period mainly because of lower average realization price, resulting from lower indices (NewCastle index, Forex rates, US & Philippine Consumer Price index), for bilateral sales of Sual.

Operating income of P1,800 million was 47% lower than previous year's P3,409 million on account of lower average realization prices for bilateral and spot sales and higher average cost of replacement power purchases supplied to bilateral customers.

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

The net generation of Ilijan Power Plant for the first quarter of 2019 of 2,156 GWh grew by 14% while total offtake volume of 2,168 GWh increased by 12% compared to the same period in 2018. The improvement was attributable to minimal outage hours incurred by the power plant in 2019, while in 2018, Block 2 underwent interim combustor inspection for 23 days.

Revenues of P11,085 million for the quarter ended March 31, 2019 was 32% higher than 2018. The increase was attributable to higher Meralco nominations, resulting from the plant's longer operating hours and higher net generation, coupled with higher average bilateral and spot selling prices. Consequently, operating income of P3,567 million in 2019 was 48% better than the P2,415 million posted in 2018.

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

San Roque Power Plant's net generation of 156 GWh, at 21% net capacity factor rate, for the first quarter of 2019 declined by 5% due to unfavorable hydrological conditions and the brief shutdown of the plant from February 15 to 18, 2019. Total offtake volume of 261 GWh was 5% higher than 2018 due to higher dispatch to MPPCL under the Interim Replacement Power Agreement with SPDC.

Revenues for the period increased by 15% from P1,605 million in 2018 to P1,839 million in 2019 due to higher offtake volume for replacement power sales, higher average selling prices and increase in revenue from sale of contract capacity.

The foregoing factors contributed to the improvement of operating income by 10% from P680 million in 2018 to P746 million in 2019.

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

The first 3 units of the Limay Greenfield Power Plant, with a combined capacity of 450 MW, commenced commercial operations on May 26, 2017, September 26, 2017, and March 26, 2018, respectively, following the completion of testing and commissioning phase and the issuance of a PAO by the ERC. Meanwhile, Unit 4 was synchronized to the grid on October 7, 2018 and is currently under testing and commissioning stage. The total net generation of the plant at 622 GWh, at a capacity factor rate of 72%, for the first quarter of 2019 was 24% higher than the 502 GWh for 2018 due primarily to the full-quarter operations of Unit 3. SCPC dispatched 366 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 536 GWh was ahead than the previous year by 53% due to higher offtake volume sold to various customers, that were obtained to fully contract the capacity of Unit 3, and as replacement power to SMEC and MPPCL.

For the first quarter, revenues increased by 57% from P1,570 million in 2018 to P2,472 million in 2019 as bilateral offtake volume and average spot selling price increased. Consequently, operating income at P645 million, was 146% better than the previous year.

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

Units 1 and 2 of the Davao Greenfield Power Plant, with a combined capacity of 300 MW, started commercial operations on July 26, 2017 and February 26, 2018, respectively, following the completion of its testing and commissioning phase and the ERC issuance of a PAO in favor of both units.

For the first quarter of 2019, a total of 423 GWh was generated by the plant at a capacity factor rate of 74%. This was 55% higher compared to 2018 same period due to the full-quarter operations of Unit 2. Revenues for 2019, at P2,713 million, surpassed the previous year by 81% on account of additional bilateral customers and increase in nominations from its existing bilateral customers. This is despite the slight decrease in average realization price due to lower pass-on fuel prices. Accordingly, operating income registered at P1,215 million or 157% higher than same period of 2018.

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

The Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 619 MW, contributed a full-quarter total net generation of 986 GWh for 2019 compared to 2018, where operations of the Masinloc Power Plant were registered for only 11 days, starting from the date of its acquisition on March 20, 2018.

With the full-quarter operations of the Masinloc Power Plant in 2019, higher total offtake volume of 1,305 GWh was sold to distribution utilities and electric cooperatives. Year-to-date revenues, which includes the ancillary revenues from the 10 MW BESS, and operating income likewise increased, registering at P6,347 million and P1,386 million, respectively.

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

2020 vs. 2019

a. **San Miguel Electric Corp. (SMELC), RES**

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

Offtake volume of 389 GWh for the first quarter of 2020 fell compared to last year's 526 GWh. The 26% decrease was attributable to lower electricity requirements of existing customers partly offset by full-quarter recognition of nominations from contestable customers contracted by 2nd quarter 2019 onwards. This led to the decline of 29% in revenues in 2020 which registered at P2,037 million.

Lower volume, and depressed margin resulted to an operating income amounting to P12 million for the first quarter of 2020, a drop from the P21 million posted in 2019.

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

Revenues of P849 million was 18% higher than last year's P721 million primarily driven by higher offtake volume and pass-through generation charges. Consequently, operating loss of P36 million in 2020 was an improvement compared to the P128 million operating loss recognized in 2019 for the same period on account of the increase in revenues.

c. **SCPC, RES**

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

For the first quarter of 2020, total offtake volume registered at 518 GWh. This was 69% higher than last year's 307 GWh due to new RES customers following the increase in the plant's capacity. Revenues increased by 65% from P1,498 million last year to P2,474 million as offtake volume increased. Consequently, operating income registered at P226 million in 2020, a 115% increase from last year's P105 million.

d. **MPPCL, RES**

MPPCL has various retail sale agreements.

For the first quarter of 2020, total offtake volume and revenues more than doubled compared to last year, registering at 61 GWh and P217 million, respectively, on account of higher offtake volume. Meanwhile, operating income declined from P10 million in 2019 to P8 million in 2020 due mainly to lower average realization price.

2019 vs. 2018

a. **SMELC, RES**

Offtake volume of 526 GWh for the first quarter of 2019 was 21% higher compared to the previous year's 433 GWh. The increase was attributable to the following: (i) higher electricity requirements of existing customers, and (ii) additional 26 contestable customers contracted in 2019. The average realization price, however, was lower due to downward adjustments in rates based on current indices. This led to a 1% increase in revenues in 2019 which registered at P2,861 million.

Higher volume and improved margin, to cover costs and operating expenses, allowed SMELC to post an operating income amounting to P21 million for the first quarter of 2019, an improvement from the P14 million operating income posted in 2018.

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

Revenues in 2019 of P721 million was 2% higher than the P706 million posted in 2018 driven primarily by higher offtake volume partially offset by the decrease in average selling prices due to the decline in pass-through generation costs.

On the other hand, operating loss of P128 million for the first quarter of 2019 was higher compared to the P32 million recognized in 2018 for the same period on account of the 15% increase in the cost of power purchases.

c. **SCPC, RES**

For the first quarter of 2019, total offtake volume at 307 GWh was higher by 103% from the 152 GWh in 2018 due to higher bilateral sales from additional contestable customers. Revenues increased by 84% from P815 million in 2018 to P1,498 million in 2019 as offtake volume increased.

d. **MPPCL, RES**

For the first quarter of 2019, total offtake volume registered at 30 GWh while revenues and operating income amounted to P103 million and P10 million, respectively.

III. FINANCIAL POSITION

<u>2020 vs. 2019</u>

The Group's consolidated total assets as at March 31, 2020 amounted to P587,401 million, higher by 5% or P30,282 million than December 31, 2019 balance of P557,119 million. The increase was attributable to the following factors:

a. Increase in cash and cash equivalents by P18,248 million was due mainly to (i) the net proceeds from the issuance of US$600 million SPCS on January 21, 2020 by the Parent Company (P30,170 million), offset by payments (ii) to PSALM for the finance lease liabilities of IPPA entities (P7,255 million), (iii) to contractors for the expansion projects of Mariveles Power Generation Corporation ("MPGC") and (P3,853 million), (iv) of distributions to the holders of Undated Subordinated Capital Securities (USCS) and Redeemable Perpetual Securities (RPS) of the Parent Company (P1,249 million), and (v) for maturing obligations of SMCPC and SCPC (P586 million).

b. Increase in trade and other receivables by P6,656 million was due primarily to the deferred collections of February 2020 Power Bills of SMEC, SPPC and MPPCL following the ERC advisory dated March 17, 2020 directing Distribution Utilities in Luzon to provide a one month extension of payments for customer bills falling due on March 15 to April 14, 2020. This was in line with the President of the Philippines declaration, under Proclamation No. 929 dated March 16, 2020, placing the entire Luzon under Enhanced Community Quarantine due to the spread of the Corona Virus Disease 2019. Full collection of February 2020 Power Bills is expected to be completed by September or October 2020.

c. Increase in property, plant and equipment by P3,994 million was due mainly to the additional construction costs incurred by MPGC for its Mariveles Power Plant project, by Universal Power Solutions, Inc. for its BESS projects, and by MPPCL for its expansion project.

d. Increase in other noncurrent assets by P2,238 million was due mainly to higher restricted cash balance by P2,144 million arising from the remaining proceeds of MPPCL's US$43 million loan drawn from its credit facility in March 2020.

The Group's consolidated total liabilities as at March 31, 2020 amounted to P401,788 million, 0.5% or P1,906 million slightly lower than the December 31, 2019 balance of P403,694 million. The major items accounting for the decrease are as follows:

a. Lower lease liabilities by P5,366 million was due primarily to payments made by the IPPA entities (P5,546 million).

b. Increase in income tax payable was attributable mainly to the first quarter income tax payable of MPPCL.

c. Additional loan drawn by MPPCL from its credit facility, amounting to US$43 million (P2,179 million) in March 2020, net of partial settlements by SMCPC and SCPC of their maturing long-term borrowings (P586 million).

d. Increase in deferred tax liabilities by P1,281 million was primarily attributable to the higher provision for deferred income tax expense recognized by the IPPA entities on the difference of their monthly fixed payments to PSALM over their finance lease-related expenses.

2019 vs. 2018

The Group's consolidated total assets as at March 31, 2019 amounted to P499,289 million, higher by 1% or P5,439 million than December 31, 2018 balance of P493,850 million. The increase was attributable to the following factors:

a. Lower cash and cash equivalents by P5,368 million was due mainly to (i) additional down payments to contractors made by MPGC (P4,509 million) and (ii) payments of maturing obligations by SMCPC and SCPC (P572 million).

b. Increase in trade and other receivables by P3,953 million was due to higher bilateral sales of SPPC, MPPCL, SCPC, SMEC and SMELC (P3,627 million).

c. Decrease in property, plant and equipment by P167,713 million was primarily due to the reclassification of the Group's IPPA power plants to right-of-use assets account as a result of the adoption of Philippine Financial Reporting Standards ("PFRS") 16, Leases (P167,387 million).

d. Increase in other noncurrent assets by P7,352 million was due mainly to: (i) the consolidation of MPGC's advances to contractors (P6,292 million) when SMC Global Power obtained a 73.58% controlling interest in MPGC through the subscription of the latter's remaining unissued common shares in January 2019; and (ii) higher restricted cash balance by P1,137 million arising from the remaining proceeds of MPPCL's US$35 million loan drawn from its credit facility in January 2019.

The Group's consolidated total liabilities as at March 31, 2019 amounted to P399,985 million, 0.5% or P1,892 million slightly higher than the December 31, 2018 balance of P398,093 million. The major items accounting for the increase are as follows:

a. Increase in accounts payable and accrued expenses by P2,721 million was due primarily to higher trade payables of MPPCL, SPPC, SMEC and SCPC for power purchases, energy fees and coal purchases (P2,936 million).

b. Increase in income tax payable was attributable mainly to the first quarter income tax payable of MPPCL.

c. Additional loan drawn by MPPCL from its credit facility, amounting to US$35 million (P1,824 million) in January 2019, net of partial settlements by SMCPC and SCPC of its long-term borrowings (P572 million).

d. Increase in deferred tax liabilities by P1,053 million was primarily attributable to higher provision for deferred income tax expense recognized by the IPPA entities on the difference of monthly fixed payments to PSALM over the finance lease-related expenses.

e. Lower lease liabilities by P3,430 million was due to payments made by the IPPA entities (P4,886 million) and offset by the additional liabilities recognized for the lease of land by SMCPC and SCPC as a result of the adoption of PFRS 16 (P1,283 million).

Equity

The increase in equity is due to:

(in Millions)	March 31	
	2020	2019
Issuance of SPCS	**P30,170**	P -
Net income for the period attributable to equity holders of the Parent Company	**3,221**	3,589
Non-controlling interests	**-**	977
Distributions paid to RPS holder	**(514)**	(531)
Distributions paid to USCS holders	**(735)**	(757)
Others	**46**	268
	P32,188	P3,546

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(in Millions)	March 31	
	2020	2019
Net cash flows provided by operating activities	**P325**	P7,166
Net cash flows used in investing activities	**(6,941)**	(7,862)
Net cash flows provided by (used in) financing activities	**24,913**	(4,729)

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

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

(in Millions)	March 31	
	2020	2019
Additions to deferred exploration and development costs	**(P1)**	(P1)
Additions to investments and advances	**(42)**	(20)
Additions to intangible assets	**(46)**	(17)
Increase in other noncurrent assets	**(2,176)**	(6,530)
Additions to property, plant and equipment	**(4,676)**	(1,294)

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

(in Millions)	**March 31**	
	2020	2019
Proceeds from issuance of SPCS	**P30,170**	P -
Proceeds from short-term borrowing	**2,287**	-
Proceeds from long-term debt	**2,179**	1,824
Payment of stock issuance costs	**(15)**	-
Distributions paid to RPS holder	**(514)**	(531)
Payments of long-term debt	**(586)**	(572)
Distributions paid to USCS holders	**(735)**	(757)
Payments of short-term borrowings	**(2,287)**	-
Payments of finance lease liabilities	**(5,586)**	(4,693)

The effect of exchange rate changes on cash and cash equivalents amounted to (P49) million and P57 million on March 31, 2020 and 2019, respectively.

V. KEY PERFORMANCE INDICATORS

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

LIQUIDITY RATIO

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

	Conventional		***Adjusted*** [1]	
(in Millions P)	**March 2020**	December 2019	**March 2020**	December 2019
(A) Current Assets	**164,064**	138,619	**164,064**	138,619
(B) Current Liabilities	**77,976**	67,018	**54,573**	44,026
Current Ratio (A) / (B)	**2.10**	2.07	**3.01**	3.15

[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, 2020 and December 31, 2019, current portion of lease liabilities amounted to P23,403 million and P22,992 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 P)	**March 2020**	December 2019
(A) Net Debt *(2)*	**196,983**	217,523
(B) Total Equity *(3)*	**181,646**	150,590
Net Debt-to-Equity Ratio (A) / (B)	**1.08**	1.44

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

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

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

	Conventional		***Adjusted*** *(4)*	
(in Millions P)	**March 2020**	December 2019	**March 2020**	December 2019
(A) Total Assets	**587,401**	557,119	**426,497**	394,918
(B) Total Equity	**185,613**	153,425	**185,613**	153,425
Asset-to-Equity Ratio (A) / (B)	**3.16**	3.63	**2.30**	2.57

(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 finance lease liabilities. As at March 31, 2020 and December 31, 2019, net carrying amount of IPPA power plant assets amounted to P160,904 million and P162,201 million, respectively.

PROFITABILTY RATIO

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

(in Millions P)	**March 2020**	December 2019
(A) Net Income *(5)*	**14,005**	14,364
(B) Total Equity	**185,613**	153,425
Return on Equity (A) / (B)	**7.5%**	9.4%

(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 P)	**March 2020**	December 2019
(A) EBITDA [(6)]	**34,406**	34,995
(B) Interest Expense [(7)]	**14,570**	14,865
Interest Coverage Ratio (A) / (B)	**2.36**	2.35

(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

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

	Periods Ended March 31	
(in GWh)	**2020**	2019
(A) Current Period Offtake Volume	**6,600**	6,826
(B) Prior Period Offtake Volume	**6,826**	4,792
Volume Growth (Decline) [(A / B) – 1]	**(3.3%)**	42.4%

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

	Periods Ended March 31	
(in Millions P)	**2020**	2019
(A) Current Period Revenue	**28,298**	34,676
(B) Prior Period Revenue	**34,676**	24,661
Revenue Growth (Decline) [(A / B) – 1]	**(18.4%)**	40.6%

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

	Periods Ended March 31	
(in Millions P)	**2020**	2019
(A) Income from Operating Activities	**7,823**	9,841
(B) Revenues	**28,298**	34,676
Operating Margin (A) / (B)	**27.6%**	28.4%

VI. OTHER MATTERS

a. Effect of Corona Virus Disease 2019 (COVID-19)

The President of the Philippines declared under, Proclamation No. 922 dated March 8, 2020 and Proclamation No. 929 dated March 16, 2020, a state of public health emergency and a state of calamity, respectively, throughout the Philippines due to the COVID-19 pandemic and imposed an Enhanced Community Quarantine (the “ECQ”) across the entire island of Luzon effective March 17, 2020 until April 12, 2020. Executive Order No. 112 dated April 30, 2020 further extended the ECQ in the NCR and other provinces until May 15, 2020.

Consequently, industrial demand in the Grid decreased significantly during the ECQ period. On the other hand, most utility companies maintained their demand at historical levels, representing primarily residential and small-scale industrial demand. From the Group’s perspective, its bilateral energy volumes emanate mainly from contracted capacity with utility companies. Their power supply agreements mostly require a take-or-pay arrangement or impose minimum offtake volumes which thus allow the Group to continuously bill these customers at the pertinent contracted volumes during the ECQ period.

The day-to-day operations of the Group, being primarily engaged in power generation, are not significantly affected by the ECQ declaration because the Government considers power generation as an essential service and thus allows the continuation of ongoing activities related thereto. As a result, the Group’s power generation activities and the ongoing repairs and maintenance works remain unhampered. As a critical safety measure to prevent the spread of COVID 19 cases but ensure operational resiliency, power plant personnel stay in the plant premises and are provided with the necessary accommodations, including food and other essential supplies, during the ECQ period. On the other hand, support functions have been placed under flexible work arrangements (i.e. work from home, skeletal work force). The foregoing measures allow the Group to operate its power plant portfolio continuously and at levels sufficient to meet its the bilateral volume commitments to its customers notwithstanding economic and logistical challenges faced during the ECQ period. The Group thus expects to maintain its budgeted financial performance for the rest of the year.

The primary regulators in the local power industry, the ERC and the DOE issued separate advisories allowing deferred payment of power bills falling due within the ECQ period, which may be paid over four equal monthly installments. Nevertheless, with the consolidated unrestricted cash and cash equivalent of P98.20 Billion as at March 31, 2020, the Group has sufficient funds to continue settling its obligations as they fall due even without the benefit of a corresponding deferral as may be allowed by the regulators, while accommodating the deferred payment schemes availed of by its customers.

The Group continues to review and will implement the necessary changes to its operations and business processes as well as its capex plans in view of the global and local economic factors as a result of the COVID 19 pandemic. The Group places equal importance to maintaining and, in certain aspects, even improving its financial position and financial performance during the ECQ period and for the rest of the year.

b. 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.

c. There were no material changes in estimates of amounts reported in prior financial years.

d. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

e. 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 other than the stated expected effect of the COVID-19 Pandemic.

f. 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.

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

h. 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.

i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at March 31, 2020. These consist of construction of power plants and battery energy storage systems in line with the Group's expansion projects and acquisition of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash and proceeds of availed long-term loans and issued bonds and SPCS.

   The outstanding purchase commitments of the Group amounted to P13,724 million as at March 31, 2020. Amount authorized but not yet disbursed for capital projects as at March 31, 2020 is approximately P39,007 million.