



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

Re: **SMC Global Power Holdings Corp.**

Gentlemen:

SMC Global Power Holdings Corp. hereby furnishes the Philippine Dealing & Exchange Corp. a copy of its Definitive Information Statement under SEC Form 20-IS filed with the Securities and Exchange Commission on even date.

Very truly yours,

SMC GLOBAL POWER HOLDINGS CORP.

By:


ELENITA D. GO
Corporate Information Officer

er



SMC GLOBAL POWER

12 May 2020

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City

Attention: **VICENTE GRACIANO P. FELIZMENIO, JR.**
Director – Markets and Securities Regulation Department

Gentlemen:

We write in connection with your letter dated 27 April 2020, relative to the Preliminary Information Statement (“PIS”) that we filed with your office on 27 April 2020. The PIS was filed in connection with the Regular Annual Meeting of the Stockholders of SMC Global Power Holdings Corp. to be held on 2 June 2020.

Set forth in the table below are your comments/requirements with respect to the disclosures required under Section 49 of the Revised Corporation Code and our responses/compliance thereto:

SEC Comments	Company's Response
i. A description of the voting and vote tabulation procedures used in the previous meeting;	<i>Kindly refer to Annex “G”.</i>
ii. A description of the opportunity given to stockholders or members to ask questions and a record of the questions asked and answers given;	<i>Kindly refer to Annex “G”.</i>
iii. The matters discussed and resolutions reached;	<i>Kindly refer to Annex “G”.</i>
iv. A record of the voting results for each agenda item;	<i>Kindly refer to Annex “G”.</i>
v. A list of the directors or trustees, officers and stockholders or members who attended the meeting;	<i>Kindly refer to Annex “G”.</i>
vi. Material Information on the current stockholders, and their voting rights;	<i>Kindly refer to pages 10-13.</i>
vii. Appraisals and performance report for the board and the criteria and procedure for assessment; and	<i>Kindly refer to Annex “F”.</i>
viii. Directors disclosures on self-dealing and related party transactions	<i>Kindly refer to page 20.</i>

In addition, please find below our responses to your comments listed in the Checklist of Requirements attached to your letter dated 27 April 2020:

SEC Requirement	Page No.	SEC Comments	Company's Response
Company is advised of the Notice dated 20 April 2020 re: Alternative Mode for Distributing and Providing Copies of the Notice of Meeting, Information Statement, and Other Documents in connection with the Holding of Annual Stockholders' Meeting for 2020.	For content, please see pages 2-3	Update all the required information	The Company published (in print and online format) its Notice of Meeting (with Appendix 1) in the 11 May 2020 and 12 May 2020 issues of The Philippine Star and Manila Bulletin in compliance with SEC Notice dated 20 April 2020. The Company's Notice of Meeting (with Appendix 1), together with the Definitive Information Statement and its Annexes, as well its 2019 Annual Report under SEC Form 17-A and 1st Quarter 2020 Report under SEC Form 17-Q, are likewise made available in the Company's website.
Payment Assessment Form (Filing Fee)		Please submit copy of the oncoll payment re: payment of filing fee together with the Definitive Information Statement.	The Company deposited the required payment for the filing fee of the Information Statement and Legal Research Fee with the Landbank of the Philippines on 11 May 2020. Attached are the oncoll payment slips issued by Landbank to the Company.

MANAGEMENT REPORT

Audited Financial Statements and Interim Financial Statements (Revised SRC Rule 68)

SEC Requirement	Page No.	SEC Comments	Company's Response
(i) There shall be consolidated Audited Financial Statements of Financial Position (except if not applicable), in comparative format, as of the end of each of the two (2) most recently completed fiscal years. If the meeting date is beyond one hundred thirty five (135) days from the company's fiscal year end, a separate Interim Unaudited Statement of Financial Position as of the end of the most recent quarter with comparative figures as of the end of the proceeding fiscal year shall likewise be filed.	Annex B - pages 9 and 10; Annex D - pages 1 and 2	Not complied with	The Audited Consolidated Statements of Financial Position as of December 31, 2019 and 2018 and the Interim Unaudited Consolidated Statements of Financial Position as of March 31, 2020 and December 31, 2019 of the Company are attached to the Definitive Information Statement as Annex "B" and Annex "D", respectively.
(ii) The Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity shall be in comparative format for the three (3) most recently completed fiscal years or such shorter period as the company has been in existence. <i>If the meeting date is beyond one hundred thirty-five (135) days from the company's fiscal year end, separate</i>	Annex B - pages 11 to 15; Annex D - pages 3 to 7	Not complied with	The 2019 Audited Consolidated Statements of Comprehensive Income, Statements of Cash Flows and Statements of Changes in Equity for the years ended December 31, 2019, 2018 and 2017 and the Interim Unaudited Consolidated Statements of Comprehensive Income, Statements of Cash Flows and Statements of Changes in Equity for

<i>interim unaudited statements for the most recent quarter with comparative figures for period ending of the same quarter of the preceeding year shall likewise be filed.</i>			the periods ended March 31, 2020 and March 31, 2019 2018 of the Company are attached to the Definitive Information Statement as Annex "B" and Annex "D", respectively.
Management's Discussion and Analysis (MD&A) or Plan of Operation (Required by Part III(A) of "Annex C")			
For the interim periods, disclose the company's and its majority-owned subsidiaries' top five (5) key performance indicators. It shall include a discussion of the manner by which the company calculates or identifies the indicators presented on a comparable basis.	Annex E - pages 14 to 17	Not complied with	This is included in the Management's Discussion and Analysis or Plan of Operation of the Company as of March 31, 2020 attached as Annex "E".
(b) Interim Periods: Comparable discussion to assess material changes (last fiscal year and comparable interim period in the preceding year).	Annex E - pages 1 to 14	Not complied with	This is included in the Management's Discussion and Analysis or Plan of Operation of the Company as of March 31, 2020 attached as Annex "E".
(1) Discussion of the Registrant's Financial Condition, Changes in Financial Condition and Results of Operations for each of the last 3 fiscal years.			
(2) If FS shows losses from operation, explain the causes underlying these losses and the steps the registrant has taken or is taking to address these cause.			
(3) Past and future financial condition and results of operation, with particular emphasis on the prospects for the future.			
(4) Key Variable and Other Qualitative and Quantitative Factors.			
If Material:			
(i) Any Known Trends, Events or Uncertainties (Material Impact on Liquidity)	Annex C - page 27	Disclose, if any	This is included in the Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2019 attached as Annex "C".
(ii) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation			
(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.			
(iv) Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures			

(v) Any Known Trends, Events or Uncertainties (Material Impact on Sales)			
(vi) Any Significant Elements of Income or Loss (from continuing operations)			
(vii) Causes for Any Material Changes from Period to Period of FS which shall include vertical and horizontal analyses of any material item (5%)			
SEC Requirement	Page No.	SEC Comments	Company's Response
The term "material" in this section shall refer to changes or items amounting to at least five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.	Annex C - page 27	Disclose, if any	This is included in the Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2019 attached as Annex "C".
(viii) Seasonal Aspects that has Material Effect on the FS			
(b) Interim Periods: Comparable discussion to assess material changes (last fiscal year and comparable interim period in the preceding year). Disclose the required information under subparagraph (2)(a)(i) to (viii) above.	Annex E - pages 17 to 18		This is included in the Management's Discussion and Analysis or Plan of Operation of the Company as of March 31, 2020 attached as Annex "E".

Very truly yours,

SMC GLOBAL POWER HOLDINGS CORP.

By:



VIRGILIO S. JACINTO

Corporate Secretary and
Compliance Officer

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Julie Ann B. Domino-Pablo

Contact Person

(02) 8702-4510

Company Telephone Number

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Month

3	1
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Day

SEC Form 20-IS Definitive Information Sheet
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FORM TYPE

First Tuesday of

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Month

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Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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STAMPS

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SMC GLOBAL POWER

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
June 2, 2020

The Annual Meeting of the Stockholders of **SMC GLOBAL POWER HOLDINGS CORP.** will be held on **June 2, 2020 (Tuesday) at 10:00 a.m., which will be presided by the Chairman at No. 40 San Miguel Avenue, Mandaluyong City. Stockholders are requested to attend through teleconferencing by dialing- in the telephone number (02) 8-8046593.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on June 4, 2019
3. Approval of the 2019 Audited Financial Statements
4. Election of the Board of Directors
5. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
6. Appointment of External Auditors
7. Other Matters
8. Adjournment

A copy of the Minutes of the Annual Stockholders' Meeting held on June 4, 2019 is included in the Definitive Information Statement and is available for viewing on the Company's website www.smcglobalpower.com.ph.

Due to CoVID-19 health concerns, the Company will not hold a physical meeting and will instead conduct the meeting through teleconferencing. Stockholders can attend the meeting by teleconferencing. Stockholders intending to attend the meeting by teleconferencing should notify the Company by email to 2020ASM@smcqph.sanmiquel.com.ph by **May 26, 2020** at 12 noon. The procedure and further details for attending the meeting, participation therein and casting of votes are set forth in Appendix 1 and in the Definitive Information Statement.

Votes will be cast through ballots or proxies. The deadline for the submission of ballots and proxies is on **May 19, 2020**. For your convenience, a sample of a ballot/proxy is attached to the Definitive Information Statement. For an individual, his/her ballot or proxy must be accompanied by a valid government-issued ID with a photo. For a corporation, its proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to represent the corporation in the meeting. Ballots and proxies may be sent through email at 2020ASM@smcqph.sanmiquel.com.ph or by mail to the Office of the Corporate Secretary at No. 40 San Miguel Avenue, Mandaluyong City. Proxies need not be notarized. Validation of ballots and proxies will be on **May 26, 2020** at 2:00 p.m. at the Office of the Corporate Secretary at the above-mentioned address. Hard copies of the ballots and proxies and notarized Secretary's Certificates will be immediately sent after the lifting of the enhanced community quarantine and when offices resume normal operations.

Questions and comments to the Board of Directors and/or Management may be sent in advance by email to 2020ASM@smcqph.sanmiquel.com.ph.

Mandaluyong City, May 11, 2020.

Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

**PROCEDURE FOR THE 2020 ANNUAL STOCKHOLDERS' MEETING OF
SMC GLOBAL POWER HOLDINGS CORP. THROUGH TELECONFERENCING**

1. The Chairman shall preside the 2020 Annual Stockholders' Meeting at No. 40 San Miguel Avenue, Mandaluyong City.
2. Stockholders of record as of May 5, 2020 who intend to attend the meeting through teleconferencing are requested to notify the Company by email to 2020ASM@smcgph.sanmiquel.com.ph by May 26, 2020 at 12 noon.
3. For validation purposes, the email should contain the following information: (i) name, (ii) address, (iii) telephone number that the stockholder will use to dial-in for the teleconferencing, and (iv) a scanned copy of any valid government-issued identification (ID) card with photo of the stockholder.
4. Only the stockholders who have notified the Company of their intention to participate through teleconferencing as above-described and have been validated to be stockholders of record of the Company will be considered in computing stockholder attendance at the meeting, together with the stockholders attending through proxies.
5. On June 1, 2020, the Corporate Secretary and/or the Assistant Corporate Secretary shall inform the stockholders of the Access Code for the teleconferencing either by email and/or SMS.
6. On June 2, 2020, 9:45 a.m., the stockholders participating via teleconferencing shall each dial-in the telephone number (02) 8-8046593. Thereafter, the stockholder will hear a recorded message acknowledging the call and will prompt him/her to enter the Access Code. The stockholder will have to enter the Access Code so provided to him/her in order to successfully join the teleconferencing.
7. Votes of all stockholders can only be cast through ballots or proxies submitted on or before May 19, 2020. A sample of the ballot and proxy is included in the Definitive Information Statement.
8. All ballots and proxies should be received by the Corporate Secretary on or before May 19, 2020 by email sent to 2020ASM@smcgph.sanmiquel.com.ph or by mail sent to the Office of the Corporate Secretary at No. 40 San Miguel Avenue, Mandaluyong City.
9. For an individual, his/her ballot or proxy must be accompanied by a valid government-issued ID with a photo. For a corporation, its proxy must be accompanied by its corporate secretary's certification stating the representative's authority to represent the corporation in the meeting. Validation of ballots and proxies will be on May 26, 2020 at 2:00 p.m. at the Office of the Corporate Secretary at the above-mentioned address.
10. The nominees for election to the Board were submitted in writing to the Board of Directors through the Corporate Secretary. The Corporate Governance Committee is tasked to pre-screen and evaluate the qualifications of the nominees in accordance with the Amended Manual on Corporate Governance of the Company.
11. The voting procedure for all items in the Agenda, including the election of the members of the Board, are set out in the Definitive Information Statement.
12. Stockholders may send their questions and/or comments during the meeting, or prior thereto by email to 2020ASM@smcgph.sanmiquel.com.ph. Questions and comments may also be written in the space provided in the sample ballot/proxy form.
13. The proceedings of the meeting will be recorded.

Should you have questions or requests for clarification on the procedure for the 2020 Annual Stockholders' Meeting, please email them to 2020ASM@smcgph.sanmiquel.com.ph.

SMC GLOBAL POWER HOLDINGS CORP.
ANNUAL STOCKHOLDERS' MEETING
JUNE 2, 2020
10:00 a.m. via Teleconferencing
("2020 Annual Stockholders' Meeting")

Please mark as applicable:

☐ **Vote by ballot:** The undersigned stockholder of SMC Global Power Holdings Corp. (the "Company") casts his/her vote on the agenda items for the 2020 Annual Stockholders' Meeting, as expressly indicated with "X" below in this ballot.

☐ **Vote by proxy:** The undersigned stockholder of the Company hereby appoints _____ or, in his/her/its absence, the Chairman of the meeting, as attorney and proxy, to represent and vote all the shares registered in his/her/its name at the 2020 Annual Stockholders' Meeting and any of its adjournment(s), as fully as the undersigned can do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below. If the undersigned fails to indicate his/her/its vote on the agenda items specified below, his/her/its proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 5.

PROPOSAL	ACTION			
	VOTE FOR ALL	WITHHOLD FOR ALL	VOTE ONLY FOR	FULL DISCRETION OF PROXY (IF FORM USED AS PROXY)
1. Election of Directors				
The nominees are: a. Ramon S. Ang b. Ferdinand K. Constantino c. Aurora T. Calderon d. Virgilio S. Jacinto e. Jack G. Arroyo, Jr. (<i>Independent Director</i>) f. Consuelo M. Ynares-Santiago (<i>Independent Director</i>) g. Josefina Guevara-Salonga (<i>Independent Director</i>)			a. b. c. d. e. f. g.	
	FOR	AGAINST	ABSTAIN	
2. Approval of the Minutes of the 2019 Annual Stockholders' Meeting				
3. Approval of the 2019 Audited Financial Statements				
4. Ratification of all Acts of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders' Meeting				
5. Appointment of External Auditors for 2020				

Signed this _____ day of _____ 2020 at _____.

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

Questions/Comments to the Board of Directors and/or Management:

NOTE: This ballot/proxy should be received by the Office of the Corporate Secretary on or before May 19, 2020 by email sent to 2020ASM@smcgph.sanmiguel.com.ph or by mail sent to the Office of the Corporate Secretary at No. 40 San Miguel Avenue, Mandaluyong City. This ballot/proxy, when properly executed, will be voted in the manner as marked/directed herein by the stockholder. If no direction is made in the proxy, such proxy will be voted for the election of all nominees and for the approval of the matters stated above and for such other matters as may properly come before the meeting as recommended by the management or the Board of Directors. A stockholder giving a proxy has the power to revoke it either in an instrument in writing duly presented to and recorded with the Corporate Secretary at least five (5) days prior to the 2020 Annual Stockholders' Meeting. Notarization of this proxy is not required. For an individual, his/her ballot/proxy must be accompanied by a valid government-issued ID with a photo. For a corporation, its proxy must be accompanied by a certification issued by its corporate secretary setting the representative's authority to represent the corporation in the 2020 Annual Stockholders Meeting ("Secretary's Certificate"). Validation of ballots and proxies will be on May 26, 2020 at 2:00 p.m. at the above-mentioned address of the Office of the Corporate Secretary. For ballots, proxies and Secretary's Certificates sent to the Office of the Corporate Secretary via email, the hard copies of the ballots, proxies, and notarized Secretary's Certificate should be immediately sent to the Office of the Corporate Secretary at the above-mentioned address after the lifting of the enhanced community quarantine and when offices resume normal operations.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:
☐ Preliminary Information Statement
☒ Definitive Information Statement
 2. Name of Registrant as specified in its charter **SMC Global Power Holdings Corp.**
 3. **Philippines**
 Province, country or other jurisdiction of incorporation or organization
 4. SEC Identification Number **CS2008-01099**
 5. BIR Tax Identification Code **006-960-000-000**
 6. **No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City** **1550**
 Address of principal office Postal Code
 7. Registrant's telephone number, including area code **(632) 8702-4500**
 8. **June 2, 2020, 10:00 a.m., No. 40 San Miguel Avenue, Mandaluyong City (venue where meeting will be presided by Chairman. Stockholders are requested to attend via teleconference in view of COVID-19 health concerns)**
 Date, time and place of the meeting of security holders
 9. Approximate date on which the Information Statement is first to be sent or given to security holders **May 12, 2020**
 10. Name of Person Filing the Statement: **SMC Global Power Holdings Corp.**
 Address and Telephone No.: **No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City (632) 8702-4500**
 11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):
Php 15 Billion worth of Fixed Rate Bonds issued in July 2016
Php 20 Billion worth of Fixed Rate Bonds issued in December 2017
Php 15 Billion worth of Fixed Rate Bonds issued in August 2018
Php 30 Billion worth of Fixed Rate Bonds issued in April 2019
- | Title of Each Class | Number of Shares of Common Stock
Outstanding and Amount of Debt Outstanding
(as of March 31, 2020) |
|--|--|
| Common Shares | 1,250,004,000 |
| Consolidated Total Liabilities (in Thousands) | Php 401,787,476 |
12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [☐] No [☒]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein: **N/A**

INFORMATION STATEMENT GENERAL INFORMATION

Date, Time and Place of Meeting of Security Holders

The annual stockholders' meeting of **SMC Global Power Holdings Corp.** (the "Company" or "SMC Global Power") will be held **on 10:00 a.m., which will be presided by the Chairman at No. 40 San Miguel Avenue, Mandaluyong City.** Due to COVID-19 health concerns, the stockholders are requested to attend through teleconferencing by dialing-in the telephone number (02) 8-8046593.

Stockholders intending to attend the meeting by teleconferencing should notify the Company by email to 2020ASM@smcgph.sanmiquel.com.ph by **May 26, 2020** at 12 noon. The procedure and further details for attending the meeting, participation therein and casting of votes are set forth in Appendix 1 of the Notice and in this Definitive Information Statement.

Votes will be cast through ballots or proxies. The deadline for the submission of ballots and proxies is on **May 19, 2020**. For your convenience, a sample of a ballot/proxy is attached to the Definitive Information Statement. For an individual, his/her ballot or proxy must be accompanied by a valid government-issued ID with a photo. For a corporation, its proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to represent the corporation in the meeting. Ballots and proxies may be sent through email at 2020ASM@smcgph.sanmiquel.com.ph or by mail to the Office of the Corporate Secretary at No. 40 San Miguel Avenue, Mandaluyong City. Proxies need not be notarized. Validation of ballots and proxies will be on **May 26, 2020** at 2:00 p.m. at the Office of the Corporate Secretary at the above-mentioned address. Hard copies of the ballots and proxies and notarized Secretary's Certificates will be immediately sent after the lifting of the enhanced community quarantine and when offices resume normal operations.

Questions and comments to the Board of Directors and/or Management may be sent in advance by email to 2020ASM@smcgph.sanmiquel.com.ph.

The complete mailing address of the principal office of the Company is **No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City.**

This Definitive Information Statement is first to be sent to the stockholders on **May 12, 2020**.

THE COMPANY IS NOT SOLICITING ANY PROXIES FROM ITS STOCKHOLDERS.

Dissenters' Right of Appraisal

Under Title X of the Revised Corporation Code of the Philippines (the "Revised Corporation Code"), stockholders dissenting from and voting against the following corporate actions may demand payment of the fair market value of their shares as of the date prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action, namely: (i) any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of shortening the term of corporate existence; (ii) sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code; (iii) merger or consolidation; and (iv) investment of corporate funds in another corporation or business or for any other purpose other than the primary purpose for which the corporation was organized, as provided under Section 80 of the Revised Corporation Code.

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under the aforementioned pertinent provisions of the Revised Corporation Code.

Interest of Certain Persons in Matters to be Acted Upon

No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon in the meeting, other than their election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

**RATIONALE AND BRIEF DISCUSSION OF THE AGENDA
OF THE 2020 ANNUAL STOCKHOLDERS' MEETING**

1. Certification of Notice and Quorum

a. Call to Order

The Chairman of the Board of Directors (or the Chairman of the meeting, as the case may be) (the "Chairman") will call the meeting to order.

b. Notice and Quorum

The Corporate Secretary (or the Secretary of the meeting, as the case may be) (the "Secretary") will certify the date when the written notice of the 2020 Annual Stockholders' Meeting was sent to the stockholders as of record date of May 5, 2020 and the dates of publication (in print and online format) of the Notice in newspapers of general circulation.

The Secretary will likewise certify the presence of a quorum. Under the Company's Amended By-laws, the holders of a majority of the issued and outstanding capital stock of the Company entitled to vote shall, if present in person or by proxy, constitute a quorum for the transaction of business.

c. Voting and Voting Procedure

- i. A stockholder may vote the number of common shares held in his name in the Company's stock and transfer books as of May 5, 2020. Holders of common shares have the right to vote on all matters requiring stockholders' approval, and are entitled to vote at the meeting by submission of the ballots or proxies in accordance with the procedure set out in the Notice.
- ii. Every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock registered in his name in the books of the Company, on all items in the Agenda except for election of directors (which is set out in the next succeeding paragraph).
- iii. With respect to the election of directors, a stockholder may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute

them on the same principle as among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company computed as follows: number of common shares held on record as of record date multiplied by seven (7) directors.

- iv. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors.

2. Approval of the Minutes of the Annual Stockholders' Meeting held on June 4, 2019

A copy of the Minutes of the Annual Stockholders' Meeting held on June 4, 2019 (the "2019 Annual Stockholders' Meeting") is included in the Definitive Information Statement and is available for viewing on the Company's website www.smcglobalpower.com.ph. The stockholders will be requested to approve the Minutes of the 2019 Annual Stockholders' Meeting.

3. Approval of the 2019 Audited Financial Statements

- a. The Management of the Company will deliver the report on the performance of the Company for 2019 and present for approval of the stockholders the 2019 Audited Financial Statements of the Company.
- b. The Secretary will advise the stockholders of the holding of an open forum after the Approval of the 2019 Audited Financial Statements. Stockholders may raise their questions and/or comments during the meeting, or prior thereto by email to 2020ASM@smcgph.sanmiquel.com.ph. Questions and comments may also be written in the space provided in the ballot/proxy form.
- c. Duly authorized representatives of R. G. Manabat & Co., the external auditors for 2019, will be present at the 2020 Annual Stockholders' Meeting to respond to appropriate questions concerning the 2019 Audited Financial Statements of the Company.
- d. After the open forum, the stockholders will then be requested to approve the 2019 Audited Financial Statements.

4. Election of the Board of Directors for the Ensuing Term

Pursuant to the Company's Amended By-laws, the nominations for the election of all directors by the stockholders were submitted in writing to the Board of Directors through the Corporate Secretary. The Corporate Governance Committee has pre-screened and evaluated the qualifications of the nominees in accordance with the Amended Manual on Corporate Governance of the Company in its meeting held in May 12, 2020.

The Board of Directors during its regular meeting held on May 12, 2020 has determined that all the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's Amended By-laws.

The seven (7) nominees, who are all incumbent members of the Board of Directors, will be submitted for re-election to the Board of Directors by the stockholders at the 2020 Annual

Stockholders' Meeting. The profiles of the nominees, as well as the certification of their qualifications, are provided in Definitive Information Statement.

5. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers

The acts and proceedings of the Board of Directors and corporate officers since the 2019 Annual Stockholders' Meeting, as reflected in the minutes of meetings, are set out in the Definitive Information Statement. The acts of Management and corporate officers were taken in furtherance of the conduct of the business of the Company and in the implementation of the matters approved by the Board of Directors. The relevant disclosures relating thereto submitted to the SEC and the Philippine Dealing & Exchange Corp. are posted on the Company's website www.smcglobalpower.com.ph.

The stockholders will be requested to ratify all acts of the Board of Directors and Management since the 2019 Annual Stockholders' Meeting.

6. Appointment of External Auditors

The Audit and Risk Oversight Committee shall endorse the re-appointment of R. G. Manabat & Co. as the external auditor of the Company for 2020. The relevant background and description on the extent of the audit services, tax advisory and other related services rendered by the external auditor, including their fees, are provided in the Definitive Information Statement.

The stockholders will be requested to approve the re-appointment of R. G. Manabat & Co. for fiscal year 2020.

7. Other Matters

The Chairman will inquire whether there are other relevant matters and concerns to be discussed. The Chairman shall accordingly respond to other matters that may be raised by the stockholders.

8. Adjournment

Upon determination that there are no other relevant matters to be discussed, the meeting will be adjourned on motion duly made and seconded.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of **April 30, 2020**, the Company has only one (1) class of securities, consisting of 1,250,004,000 issued and outstanding common shares of stock. The common shares of the Company are neither traded in any public trading market, nor subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

Holders of common shares have the right to vote on all matters requiring stockholders' approval. The record date for the determination of security holders entitled to vote is **May 5, 2020**. Only stockholders of records at the close of business on **May 5, 2020** will be entitled to vote at the meeting. A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. Every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock registered in his name in the books of the Company. However, with respect to the election of directors in

accordance with Section 23 of the Revised Corporation Code, a stockholder may vote the number of common shares held in his name in the Company's stock and transfer books as of **May 5, 2020**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle as among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company computed as follows: **number of common shares held on record as of record date multiplied by seven (7) directors.**

In accordance with the Company's Amended By-laws, the deadline for submission of proxies is on **May 19, 2020**, which is ten (10) working days before the time set for the annual stockholders' meeting.

At the annual stockholders' meeting, seven (7) directors will be elected, three (3) of which are independent directors.

The beneficial owner of more than five percent (5%) of the Company's voting securities as of **April 30, 2020**, are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of Total Outstanding Shares
Common	San Miguel Corporation No. 40 San Miguel Ave., Mandaluyong City (Parent Company)	San Miguel Corporation (SMC)	Filipino	1,250,000,500	100%
Common	Ramon S. Ang No. 40 San Miguel Ave., Mandaluyong City (Director)	Nominee-director of SMC in the Board	Filipino	500	0%
Common	Ferdinand K. Constantino No. 40 San Miguel Ave., (Director)	Nominee-director of SMC in the Board	Filipino	500	0%
Common	Aurora T. Calderon No. 40 San Miguel Ave., Mandaluyong City (Director)	Nominee-director of SMC in the Board	Filipino	500	0%
Common	Virgilio S. Jacinto No. 40 San Miguel Ave., Mandaluyong City (Director)	Nominee-director of SMC in the Board	Filipino	500	0%
	Total:			1,250,002,500	

The principal stockholder of SMC Global Power is San Miguel Corporation (“SMC”), which owns approximately 100% of the issued and outstanding capital stock of SMC Global Power. SMC is one of the largest and most diversified conglomerates in the Philippines in terms of revenues and assets and its shares are listed on the Philippine Stock Exchange (“PSE”). Originally founded in 1890 as a single brewery in the Philippines, SMC currently owns market-leading businesses in vital industries that support the economic development of the country, including food and beverages, packaging, fuel and oil, infrastructure, property and investments in car distributorship and banking, in addition to its power business.

Under the stewardship of SMC, the Company has become one of the market leaders in the Philippine power industry.

The other stockholders of the Company are its directors, the details of their shareholdings in the Company, as well as their profiles, are set out below.

As regards security ownership of management, the table below sets out the details of the voting securities in the name of the director, executive officers, and nominees for election as directors, of the Company as of **April 30, 2020**:

Title of Class	Name of Record Owner	Position in the Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% out of Total Outstanding Shares
Common	Ramon S. Ang	Chairman & Chief Executive Officer and President & Chief Operating Officer	SMC; Nominee-director of SMC in the Board	Filipino	500	0%
Common	Ferdinand K. Constantino	Vice Chairman	SMC; Nominee-director of SMC in the Board	Filipino	500	0%
Common	Aurora T. Calderon	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0%
Common	Virgilio S. Jacinto	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0%
Common	Jack G. Arroyo, Jr.	Independent Director	Jack G. Arroyo, Jr.	Filipino	500	0%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	500	0%
Common	Josefina Guevara-Salonga	Independent Director	Josefina Guevara-Salonga	Filipino	500	0%

The aggregate number of shares owned of record by the directors of the Company as a group as of **April 30, 2020** is 3,500 common shares, which is less than 1% of the outstanding shares of the Company.

Voting Trust Holders of 5% or More

None of the stockholder holding more than 5% of the voting securities of the Company are under a voting trust or similar agreement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company.

Parent Company

The parent company of SMC Global Power is SMC. As of **December 31, 2019**, SMC owns approximately 100% of the issued and outstanding capital stock of SMC Global Power. On the other hand, Top Frontier Investment Holdings, Inc. owns 65.99% of the outstanding common stock of SMC as of **December 31, 2019**.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The overall management and supervision of SMC Global Power is undertaken by the Board of Directors. The Board is composed of seven (7) members of the Board, three (3) of whom are independent directors. Pursuant to Section 2, Article III of the Company's Amended By-laws, the directors are elected at each regular stockholders' meeting by stockholders entitled to vote. The term of a director is one (1) year from date of election until their successors are elected and qualified.

As of **April 30, 2020**, the following are the incumbent members of the Board of Directors of the Company, all of whom are nominees for re-election as directors at the meeting:

Name	Age	Citizenship	Position	Year Appointed
Ramon S. Ang	66	Filipino	Chairman	2010
Ferdinand K. Constantino	68	Filipino	Director	2010
Aurora T. Calderon	65	Filipino	Director	2010
Virgilio S. Jacinto	63	Filipino	Director	2010
Jack Arroyo, Jr.	61	Filipino	Independent Director	2011
Consuelo M. Ynares-Santiago	80	Filipino	Independent Director	2011
Josefina Guevara-Salonga	78	Filipino	Independent Director	2017

As of **April 30, 2020**, the following are the incumbent executive officers of the Company:

Name	Age	Citizenship	Position	Year Position was Assumed
Ramon S. Ang	66	Filipino	Chairman & Chief Executive Officer and President & Chief Operating Officer	2010 & 2017
Ferdinand K. Constantino	68	Filipino	Vice Chairman	2010
Virgilio S. Jacinto	63	Filipino	Corporate Secretary & Compliance Officer	2010 & 2011
Elenita D. Go	59	Filipino	General Manager	2011
Paul Bernard D. Causon	42	Filipino	Vice President & Chief Finance Officer	2018 & 2017
Ramon U. Agay	62	Filipino	Assistant Vice President & Comptroller	2015 & 2011
Irene M. Cipriano	45	Filipino	Assistant Corporate Secretary	2010
Maria Floreselda S. Abalos-Sampaga	55	Filipino	Data Privacy Officer	2019
Reynaldo S. Matillano	59	Filipino	Internal Audit Manager	2017
Jeciel B. Campos	61	Filipino	Assistant Vice President and Sales and Marketing Manager	2018
Jose Ferlino P. Raymundo	61	Filipino	Assistant Vice President and Energy Sourcing and Trading Manager	2018
Danilo T. Tolarba	51	Filipino	Assistant Vice President and Human Resources Group Manager	2018

The following is a brief description of the business experience of each of the directors and executive officers of the Company over the past five (5) years.

Ramon S. Ang is the incumbent Chairman of the Board and Chief Executive Officer of SMC Global Power since August 31, 2010, and concurrently, the President and Chief Operating Officer of the Company since April 30, 2017. He is also the Chairman of the Executive Committee of SMC Global Power since September 2, 2011. He is the President and Chief Operating Officer of SMC since March 6, 2002 and Vice Chairman since 1999. He is the Chairman and President of several subsidiaries of SMC Global Power such as San Miguel Energy Corporation (“SMEC”), San Miguel Electric Corp. (“SMELC”), South Premiere Power Corp (“SPPC”), Strategic Power Devt. Corp. (“SPDC”), SMC Consolidated Power Corporation (“SCPC”), San Miguel Consolidated Power Corporation (“SMCPC”), Universal Power Solutions, Inc., Central Luzon Premiere Power Corp. (“CLPPC”), Lumiere Energy Technologies Inc. (“LETI”) and KWPP Holdings Corporation; Chairman of Angat Hydropower Corporation (“AHC”); and the Chairman and President and CEO of Mariveles Power Generation Corporation (“MPGC”). He also holds, among others, the following positions in other listed and public companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; President of Ginebra San Miguel Inc.; Chairman of the Board of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia), and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is the Chairman of the Board of San Miguel Brewery Inc., San Miguel Foods, Inc., San Miguel Yamamura Packaging

Corporation, Sea Refinery Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, and Philippine Diamond Hotel & Resort, Inc. He is the President of San Miguel Northern Cement, Inc.; President and Chief Executive Officer of Northern Cement Corporation; and the Chairman and President of San Miguel Properties, Inc., San Miguel Holdings Corp., San Miguel Equity Investments Inc. and San Miguel Aerocity Inc. He is the Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp. He is also the sole director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation; President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang holds directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University. On November 15, 2019, he attended a corporate governance training seminar conducted by Risk, Opportunities, Assessment and Management Inc. ("ROAM").

Ferdinand K. Constantino is a Director of SMC Global Power since August 31, 2010, the Vice Chairman of the Board of SMC Global Power since September 2, 2011, and was its Treasurer from August 31, 2010 to September 1, 2011. He is a member of the Executive Committee, Corporate Governance Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. He is also the Chief Finance Officer and Treasurer of SMC and the Treasurer of San Miguel Food and Beverage, Inc. since July 5, 2018. He also served as a Director of SMC from May 31, 2010 to February 28, 2018. He is the Treasurer of SMELC, CLPPC, and LETI; and the Director of several subsidiaries of SMC Global Power. He also holds, among others, the following positions in other listed and public companies: Director of Top Frontier Investment Holdings, Inc., and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia). He is also the President of Anchor Insurance Brokerage Corporation; and Chairman of the San Miguel Foundation, Inc. and SMCGP Philippines Power Foundation Inc. He is also a director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., Citra Metro Manila Tollways Corporation, San Miguel Aerocity Inc. and Northern Cement Corporation. He is the Director and Chief Finance Officer of San Miguel Northern Cement, Inc. He is the Chairman of the San Miguel Foundation, Inc. and SMCGP Philippines Power Foundation Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served SMC as Chief Finance Officer of the San Miguel Beer Division; Chief Finance Officer and Treasurer of San Miguel Brewery Inc.; Director of San Miguel Pure Foods Company, Inc. and of San Miguel Properties, Inc.; and Chief Finance Officer of Manila Electric Company. He holds directorships in various domestic and international subsidiaries of SMC during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree. He attended the following seminars in 2019: (i) a corporate governance training seminar conducted ROAM on November 15, 2019 and (ii) a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices on December 5, 2019.

Aurora T. Calderon is a Director of SMC Global Power since August 31, 2010, a member of its Executive Committee since September 2, 2011. Ms. Calderon is also a member of the Executive Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is a Director of several subsidiaries of SMC Global Power. She is the Senior Vice President Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011 and has served as a director of SMC since June 10, 2014. She holds the following positions in other publicly listed companies: Director and Treasurer of Top Frontier Investment Holdings, Inc. and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia). She is also a member of the Board of Directors of Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Co. Ltd., San Miguel Equity Investments Inc., SMC Asia Car

Distributors Corp., San Miguel Yamamura Packaging Corp. and San Miguel Aerocity Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various domestic and international subsidiaries of SMC. On December 5, 2019, she also attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Virgilio S. Jacinto is the Corporate Secretary of SMC Global Power since August 31, 2010, a Director, and its Compliance Officer since September 2, 2011. He is also a member of the Corporate Governance Committee of SMC Global Power. He is the Senior Vice-President, General Counsel, Corporate Secretary and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary of several subsidiaries of SMC Global Power such as SMEC, SMELC, SPPC, SPDC, SCPC, and SMCP. He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc., and Ginebra San Miguel, Inc. He is a Director of Petron Corporation and is a Director and Corporate Secretary of various domestic and international subsidiaries and affiliates of SMC. He was formerly the Vice President and First Deputy General Counsel of SMC. He was a Director and Corporate Secretary of United Coconut Planters Bank, and a Partner at Villareal Law Offices. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Masters of Laws degree from Harvard School. He holds directorships in various domestic and international subsidiaries of SMC. On November 15, 2019, he attended a corporate governance training seminar conducted by ROAM.

Jack G. Arroyo, Jr. is an Independent Director of SMC Global Power since September 2, 2011. He is also the Chairperson of the Audit and Risk Oversight Committee, and a member of the Corporate Governance Committee and Related Party Transaction Committee of SMC Global Power. He is a medical doctor and who specializes in Ophthalmology, and a sub-specialist in refractive surgery. He is currently affiliated with The American Eye Center, The Medical City, and Eye Referral Center. He is also a member of the Board of Directors of the Philippine Healthcare Educators, Inc., and the Philippine Health Insurance Corporation, representing the Elected Local Chief Executives. He is also a member of the Board of Trustees and Treasurer of Philippine Society of Cataract and Refractive Surgery, and the Vice-President for the National Capital Region of Centrist Democratic Political Educators, Inc. He is also currently the President of Casino Español de Manila. Dr. Arroyo obtained his Doctor of Medicine degree from the University of the Philippines College of Medicine. On November 15, 2019, he attended a corporate governance training seminar conducted by ROAM.

Consuelo M. Ynares-Santiago is an Independent Director of SMC Global Power since September 2, 2011. She is also the Chairperson of the Corporate Governance Committee, and a member of the Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is also an Independent Director of Top Frontier Investment Holdings, Inc., South Luzon Tollway Corporation, Anchor Insurance Brokerage Corporation, and Phoenix Petroleum Phil. Inc. She served as an Associate Justice of the Supreme Court of the Philippines; Associate Justice of the Court of Appeals of the Philippines; and a Regional Trial Court Judge of Makati City. She graduated from the University of the Philippines College of Law. On March 15, 2019 and November 15, 2019, she attended corporate governance training seminars conducted by ROAM.

Josefina Guevara-Salonga is an Independent Director of SMC Global Power since November 7, 2017. She is also the Chairperson of the Related Party Transaction Committee and a member of the Corporate Governance Committee and Audit and Risk Oversight Committee of SMC Global Power. She is a former Associate Justice of the Court of Appeals. Previously, she was an Executive Judge of the Makati Regional Trial Court. She is currently a trustee of the Tahanan Outreach

Program since 2010 and a member of the following associations: San Pedro, Laguna Lawyer's Association, University of the Philippines Women Lawyer's Circle since 1966 and Philippine Women's Judges Association. She also served as a trustee of the Society for Judicial Excellence from 2007 to 2014. She obtained her law degree from the University of the Philippines. On November 15, 2019, she attended a corporate governance training seminar conducted by ROAM.

Elenita D. Go is the General Manager of SMC Global Power since December 14, 2011. She joined SMC Global Power in June 2011 as Head of its Sales and Trading Group. She is currently the General Manager of several subsidiaries of the Company, including SMEC, SPPC, SPDC, SCPC, SMCPC, CLPPC and LETI, and is the Chairman in other subsidiaries of SMC Global Power. She is also the President of SMGCP Philippines Power Foundation Inc., the Managing Partner and Chief Executive Officer of Masinloc Power Partners Co. Ltd. ("MPPCL") and SMCGP Philippines Energy Storage Co. Ltd. ("SMCGP Philippines Energy"), and the Chief Operating Officer of MPGC. Previously, she was a Director of Manila Electric Company and Head of the Corporate Procurement Unit of SMC. She graduated with a degree in Bachelor of Science in Electrical Engineering from Mapua Institute of Technology. In December 6, 2018, she also attended a corporate governance training seminar conducted by the Center for Global Best Practices. On December 5, 2019, she attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Paul Bernard D. Causon is the Chief Finance Officer of SMC Global Power since March 30, 2017 and was appointed Vice President of the Company on June 5, 2018. Mr. Causon is concurrently the Chief Finance Officer and Treasurer of Angat Hydropower Corporation. He is also the Chief Finance Officer of MPPCL and SMCGP Philippines Energy, and the Chief Financial Officer of SMGCP Philippines Power Foundation Inc. He is the Treasurer and Chief Finance Officer of MPGC and the General Manager of SMELC. He previously served as Vice President, Head of Treasury and Head of Special Projects of Philippine Airlines Inc. and Air Philippines Corporation; Chief Finance Officer and Treasurer of Liberty Telecoms Holdings, Inc. and Wi-Tribe Telecoms Inc.; Partner, Audit Banks and Other Financial Institutions of Manabat Sanagustin & Co., CPAs; and Vice President and Comptroller of China Banking Corporation. He graduated *magna cum laude* from the University of the Philippines with a degree in Bachelor of Science in Business Administration and Accountancy and placed fourth in the Certified Public Accountant Licensure Examination in 2000. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Ramon U. Agay is the Comptroller of SMC Global Power since September 2, 2011, and was appointed Assistant Vice President on March 25, 2015. He is also the Finance Manager of the various subsidiaries of SMC Global Power, such as SMEC, SMELC, SPPC, SPDC, SCPC, SMCPC, CLPPC and LETI, and the Treasurer of Bonanza Energy Resources Inc., Daguma Agro-Minerals Inc., Sultan Energy Phils. Corp., Mantech Power Dynamics Services Inc., Safetech Power Services Corp. and several other subsidiaries of SMC Global Power. He is the Executive Vice President and Treasurer of Alpha Water and the Comptroller of MPGC. He had previously held finance positions in SMC and its subsidiaries. He obtained a degree in Bachelor of Science in Commerce, major in Accounting from San Sebastian College. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Irene M. Cipriano is the Assistant Corporate Secretary of SMC Global Power since 2010. She is an Assistant Vice President and Associate General Counsel of SMC. She is also the Assistant Corporate Secretary of Top Frontier Investment Holdings, Inc., and the Corporate Secretary and Assistant Corporate Secretary of various subsidiaries of SMC Global Power and SMC. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. and Philippine Airlines Inc. She is a Certified Public Accountant and holds a degree in B.S. Accountancy from De La Salle University. She completed her Bachelors of Law degree from San Beda College of Law in 2000. On November 15, 2019, she attended a corporate governance training seminar conducted by ROAM.

Reynaldo S. Matillano is the Audit Manager of SMC Global since November 1, 2015 and was appointed as Internal Audit Manager on June 6, 2017. Prior thereto, he was part of the audit team of San Miguel Yamamura Packaging Corporation and SMC. He holds a degree in Bachelor in Business Administration, major in Accounting from Saint Paul University in Dumaguete City. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Maria Floreselda S. Abalos-Sampaga was appointed as the Data Protection Officer of the SMC Global Power on March 11, 2019 after having joined the Company as a regulatory compliance specialist on May 1, 2018. She is also the Data Protection Officer of the subsidiaries of SMC Global Power. Prior thereto, she held positions in several agencies of the government such as the Energy Regulatory Commission, the National Wages and Productivity Commission and the Department of Labor and Employment. She obtained her Bachelor of Laws from the Manuel L. Quezon University. On December 5, 2019, she attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Jeciel B. Campos is the Sales and Marketing Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Campos is a registered Mechanical Engineer and previously worked as a Marketing & Commercial Relations Officer for Central Luzon at the National Power Corporation Regional Office. He graduated from Mapua Institute of Technology with a Bachelor of Science degree in Mechanical Engineering. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Jose Ferlino P. Raymundo is the Energy Sourcing & Trading Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Raymundo is a Professional Electrical Engineer with over 32 years of experience in the power sector having worked for the Power Sector Assets and Liabilities Management Corporation and National Power Corporation prior to joining SMC Global Power. He holds a Bachelor of Science in Electrical Engineering degree from Mapua Institute of Technology. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Danilo T. Tolarba has been the Head of the Human Resources Division of SMC Global Power since 2015 and was appointed Assistant Vice-President and Human Resources Group Manager of the Company on June 5, 2018. Previously, Mr. Tolarba was the Manager of HR Services, Employee Relations, HR Technology, Organization Development and Recruitment of SMC Corporate Human Resources; and also held other various senior human resources positions in SMC and its subsidiaries prior thereto. He holds a Bachelor in Business Management degree from the Polytechnic University of the Philippines. On December 5, 2019, he attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices.

Term of Office

Pursuant to the Company's Amended By-laws, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director shall hold office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on **June 2, 2020** are as follows:

1. Ramon S. Ang
2. Ferdinand K. Constantino

3. Aurora T. Calderon
4. Virgilio S. Jacinto
5. Jack G. Arroyo, Jr. – Independent Director
6. Consuelo M. Ynares-Santiago – Independent Director
7. Josefina Guevara-Salonga – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Jack G. Arroyo, Jr.
2. Consuelo M. Ynares-Santiago
3. Josefina Guevara-Salonga

The incumbent independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code, as amended (“SRC”). The Certifications of the Independent Directors of the Company are attached hereto as **Annexes “A-1”, “A-2” and “A-3”**, respectively, in accordance with Securities and Exchange Commission (“SEC”) Memorandum Circular No. 5, Series of 2017.

The nominees for election as independent directors of the Board of Directors on June 2, 2020 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relationship of (a) and (b)
Jack G. Arroyo, Jr.	Ramon S. Ang	None
Consuelo M. Ynares-Santiago	Ramon S. Ang	None
Josefina Guevara-Salonga	Ramon S. Ang	None

In approving the nominations for independent directors, the Corporate Governance Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38 and the Amended Manual for Corporate Governance of the Company.

The nominations for the election of all directors by the stockholders were submitted in writing to the Board of Directors through the Corporate Secretary in accordance with the provisions of the Amended By-laws and were forwarded to the Corporate Governance Committee. In its meeting held on May 12, 2020, the Corporate Governance Committee pre-screened the qualifications of the nominees and prepared a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company’s Amended By-laws, (i) any stockholder having at least five hundred (500) shares registered in his name may be elected director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company’s Amended By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company’s Amended By-laws as determined by the Board of Directors during its regular meeting held on May 12, 2020.

Significant Employees

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors and/or executive officers or persons of the Company nominated or chosen by the Company to become its directors and executive officers.

Involvement of Directors and Officers in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Certain Relationships and Related Transactions

See Note 21, Related Party Disclosures, of the Notes to the 2019 Audited Consolidated Financial Statements of the Company, hereto attached as **Annex "B"**. No director is engaged in any self-dealing or related party transaction with the Company.

Meeting Attendance

The directors' attendance in meetings of the Board Committees, the Board of Directors and the Stockholders since the 2019 Annual Stockholders' Meeting up to the date of this Definitive Information Statement are set out in the attached **Annex "H"**.

Performance Appraisal

Pursuant to the Amended Manual on Corporate Governance and the respective Board Committee Charters of the Company, the Board of Directors and the Board Committees shall assess their respective performances through self-rating forms duly approved by the Board and the Board Committees during their respective March 09, 2020 meetings, with the end in view of ensuring that its performance accords with best practices and meets its objectives thereunder.

Attached hereto as **Annex "F"** are the results of the self-assessment on the performance of each Board Committees, the Board of Directors, and management for calendar year 2019, based on the self-rating forms approved by the Board of Directors in its March 09, 2020 meeting. The results have been validated by the Corporate Governance Committee and the Compliance Officer of the Company and have been reported to the Board of Directors during its meeting held on May 12, 2020.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Compensation

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer, President and Chief Operating Officer and Senior Executive Officers of the Company are as follows:

Name	Year	Salary (in millions)	Bonus (in millions)
Total compensation of the Chief Executive Officer, President and Chief Operating Officer and Senior Executive Officers ¹	2020 (estimated)	₱68.2	₱22.4
	2019	₱67.0	₱24.7
	2018	₱63.4	₱22.9
All other officers and managers as a group	2020 (estimated)	₱114.6	₱70.8
	2019	₱107.9	₱69.1
	2018	₱78.0	₱55.0

¹ The Chief Executive Officer, President & Chief Operating Officer, and Senior Executive Officers of the Company for 2017 to 2019 are Ramon S. Ang, Alan T. Ortiz (resigned effective April 30, 2017), Elenita D. Go, Alexander B.M. Simon (resigned effective March 30, 2017), Paul Bernard D. Causon (appointed effective April 1, 2017) and Ramon U. Agay, respectively.

Standard Arrangements

The Amended By-laws of the Company provides that directors, as such, shall not receive any stated salary for their services, but by resolution of the Board, each director, shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. The Amended By-laws of the Company further provides that a director shall not be precluded from serving the Company in any other capacity as an officer, agent or otherwise, and receiving compensation therefor. Other than the aforesaid reasonable *per diem*, the directors of the Company have not received any salary or compensation for their services as directors and for their committee participations for the periods indicated. There are no other special arrangements pursuant to which any director was or is to be compensated. There is no compensatory plan or arrangement for the termination, resignation, or retirement of a member of the Board.

Employment Contract

There is no special employment contract between the Company and a named Executive Officer. There were neither compensatory plan nor arrangement with respect to a named Executive Officer.

Warrants or Options Outstanding

There are no warrants or options held by any of the directors or executive officers of the Company.

Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of the directors and executive officers of the Company were compensated, or is to be compensated, directly or indirectly.

INDEPENDENT PUBLIC ACCOUNTANTS

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for the last ten (10) fiscal years. The Board of Directors will again nominate R.G. Manabat & Co. as the Company's external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. R.G. Manabat & Co., then known as Manabat Sanagustin & Co., has been the Company's external auditors since 2010. In 2016, R.G. Manabat & Co. changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of the engagement of R.G. Manabat & Co.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation, one of the largest and most diversified conglomerates in the Philippines, founded in 1890 that is listed on the PSE. San Miguel Corporation has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services.

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,347 MW of combined capacity as of December 31, 2019. This combined capacity will increase to 4,682 MW following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in 2020, upon receipt of its certificate of compliance from the Energy Regulatory Commission (the "ERC")). The Company currently benefits from a diversified power portfolio, including natural gas, coal, and hydroelectric power, and is expected to benefit soon from battery energy storage systems ("BESS"). Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of July 2019.

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

Power Plant and San Roque Power Plant are collectively referred to as the “IPPA Power Plants”. SMEC, SPPC and SPDC are collectively referred to as the “IPPA Subsidiaries”.

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

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

Building on its experience as an IPPA since San Miguel Corporation’s transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW circulating fluidized bed coal -fired power plant in Malita, Davao Occidental, (the “Davao Greenfield Power Plant”), which is owned by SMCP, a wholly-owned subsidiary, and the 4 x 150 MW circulating fluidized bed coal -fired power plant in Limay, Bataan, (the “Limay Greenfield Power Plant”), which is owned by SCPC, another wholly-owned subsidiary. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively. Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. In November 2014, SMC Global Power, through its subsidiary PowerOne Ventures Energy Inc., acquired a 60% stake in AHC, the owner and operator of the 218 MW Angat Hydroelectric Power Plant. More recently, on March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests in SMCGP Masin Pte. Ltd. (“SMCGP Masin”, formerly Masin AES Pte. Ltd.) from AES Phil Investment Pte. Ltd. and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy (formerly AES Philippine Energy Storage Co. Ltd.). On September 2018, Prime Electric Generation Corporation (“PEGC”) and Oceantech Power Generation Corporation (“OPGC”), both owned subsidiaries of SMC Global Power, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project nearing completion (together, comprising the “Masinloc Power Plant”), and the 10 MWh battery energy storage system project (the “Masinloc BESS”), all located in Masinloc, Zambales, while SMCGP Philippines Energy has commenced pre-construction of a 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the “Kabankalan BESS”).

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

SMC Global Power has also increased its ownership interest in MPGC by subscribing to the remaining 18,314,898 unissued common shares of MPGC on 25 January 2019 and to additional 58,000,000 common shares out of the increase in the authorized capital stock of MPGC on 6 September 2019. These subscriptions increased the Company’s ownership interest in MPGC from

73.6% to 89.54%, as a result of the waiver by Meralco Powergen Corporation, Zygnat Prime Holdings, Inc., the other stockholders of MPGC, of their right to contribute additional equity. MPGC intends to develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

SMC Global Power is also engaged in distribution and retail electricity services. In 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of Albay Electric Cooperative, Inc. ("ALECO"), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon. All the rights, interests and obligations of SMC Global Power under the concession agreement with ALECO was assumed by its wholly-owned subsidiary, Albay Power and Energy Corp. on November 2013. SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three retail electricity supplier ("RES") licenses issued to SMC Global Power, through San Miguel Electric Corporation ("SMELC"), SCPC and MPPCL, allow it to enter into contracts with contestable customers and expand its customer base.

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

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources Inc., Daguma Agro-Minerals Inc. and Sultan Energy Phils. Corp., owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. While the Company does not intend to develop these sites imminently, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

Financial Statements

1. the Audited Consolidated Financial Statements as of and for the year ended December 31, 2019 (with comparative figures as of and for the year ended December 31, 2018), including the Company's Statement of Management's Responsibility and the Notes to the 2019 Audited Consolidated Financial Statements (the "**2019 Audited Consolidated Financial Statements**"), are collectively attached hereto as **Annex "B"**.

The following components of the 2019 Audited Consolidated Financial Statements required by the SEC under SRC Rule 68, as amended, are likewise attached to this Definitive Information Statement, as follows:

- a. Legal matter paragraph in the Auditor's Report or separate reports of auditor on each of the components required under SRC Rule 68, including the following, attached hereto as **Annex "B-1"**:
 - a.1 Map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates (Part 1, 5(g)); and
 - a.2 Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1, 5 (b)).

- b. A schedule showing financial soundness indicators in two comparative periods as follows: 1) current/liquidity ratios; 2) solvency ratios, debt-to-equity ratio; 3) asset-to-equity ratio; 4) interest rate coverage ratio; 5) profitability ratio and 6) other relevant ratio which the SEC prescribed, attached hereto as **Annex “B-2”** (Part 1, 5 (c)).
2. the Unaudited Consolidated Financial Statements 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 the Selected Notes to the Unaudited Consolidated Financial Statements, are collectively attached hereto as **Annex “D”**, comprising of the following components as required by the SEC under SRC Rule 68, as amended:
 - a. Interim Unaudited Balance Sheet or Statement of Financial Position;
 - b. Statement of Comprehensive Income;
 - c. Statement of Cash Flows; and
 - d. Statement of Changes in Equity.

Management Discussion and Analysis

The Management’s Discussion and Analysis or Plan of Operation of the Company as of December 31, 2019 and March 31, 2020 are attached hereto as **Annexes “C” and “E”**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has no disagreements with R.G. Manabat & Co. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Audit and Audit Related Fees

The aggregate fees billed by R.G. Manabat & Co. amounted to ₱13.9 million, ₱6.5 million and ₱9.6 million in 2019, 2018, and 2017, respectively. Said fees include compensation for audit services, tax advisory and other related services such as review and agreed-upon procedures. There were no fees paid to the independent auditors for accounting, compliance, planning, and other services other than for those services described above.

The Audit and Risk Oversight Committee has an existing policy to review and pre-approve audit and non-audit services rendered by the independent auditors of the Company. The Audit and Risk Oversight Committee does not allow SMC Global Power to engage independent auditors for certain non-audit services expressly prohibited by SEC regulations to be performed by an independent auditor for its audit clients. This is to ensure that such independent auditors maintain the highest level of independence from SMC Global Power, both in fact and appearance.

Market Price of and Dividends on the Company’s Common Equity and Related Stockholder Matters

The Company has an authorized capital stock of ₱2,000,000,000.00 comprised of 2,000,000,000 common shares with par value of ₱1.00 per common share. As of **April 30, 2020**, the Company has issued and outstanding 1,250,004,000 common shares. The common shares of the Company are neither traded in any public trading market, nor subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

As of **April 30, 2020**, the Company has eight (8) stockholders, seven (7) of whom are individuals with at least five hundred (500) shares each. The following sets out the shareholdings of the stockholders of the Company and the approximate percentages of their respective shareholdings to the total outstanding capital stock of the Company:

Name of Stockholder	Class of Securities	Number of Shares	% of Outstanding Shares
San Miguel Corporation	Common	1,250,000,500	100%
Ramon S. Ang	Common	500	0%
Ferdinand K. Constantino	Common	500	0%
Aurora T. Calderon	Common	500	0%
Virgilio S. Jacinto	Common	500	0%
Jack G. Arroyo, Jr.	Common	500	0%
Consuelo M. Ynares-Santiago	Common	500	0%
Josefina Guevara-Salonga	Common	500	0%
Total	Common	1,250,004,000	100%

Dividend Policy

The Company and its subsidiaries are allowed under Philippine laws to declare dividends, subject to certain requirements. These requirements include, for example, that the Board is authorized to declare dividends only from its unrestricted retained earnings. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board shall determine. A cash dividend declaration does not require any further approval from stockholders. The declaration of stock dividends is subject to the approval of stockholders holding at least two-thirds of the outstanding capital stock of the Company. The Board may not declare dividends which will impair its capital.

The Company and its subsidiaries declare dividends as determined by the Board, taking into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions and appropriate reserves and working capital.

There were no cash dividend declarations during the year ended December 31, 2017, 2018 and 2019.

Distributions to Senior Perpetual Capital Securities (SPCS) Holders

On October 24, 2019, SMC Global Power paid distributions amounting to USD26,000,000 (equivalent to ₱1,923,628,571, inclusive of accrued distributions from April 25 to July 2, 2019 amounting to ₱190,759,833) to the holders of the USD800,000,000 SPCS¹ in total issued in April 2019 and July 2019.

Further, on April 25, 2020, SMC Global Power paid distributions amounting to USD26,000,000 (equivalent to ₱1,882,400,000, inclusive of tax), to the holders of the USD800,000,000 SPCS².

¹ This is comprised of the USD500,000,000 SPCS issued on April 25, 2019 and the USD300,000,000 SPCS issued on July 3, 2019 as additional securities.

² This is comprised of the USD500,000,000 SPCS issued on April 25, 2019 and the USD300,000,000 SPCS issued on July 3, 2019 as additional securities.

Distributions to Undated Subordinated Capital Securities (USCS) Holders

Details of distributions paid to USCS holders are as follows:

(in thousands)	2019	2018	2017
February	₱757,133	₱746,068	₱720,611
May	837,321	830,491	799,583
August	758,435	767,981	729,868
November	830,478	870,750	824,142
	₱3,183,367	₱3,215,290	₱3,074,204

Further, on February 26, 2020, SMC Global Power paid distributions amounting to USD10,125,000 (equivalent to ₱735,219,643, inclusive of tax), to the holders of the USD300 Million USCS issued on August 26, 2015.

Distributions to Redeemable Perpetual Securities (RPS) Holder

Details of distributions paid to RPS holder are as follows:

(in thousands)	2019	2018
March	₱530,512	₱ -
June	527,363	543,156
September	525,992	536,758
December	512,891	541,277
	₱2,096,758	₱1,621,191

Further, on March 16, 2020, SMC Global Power paid distributions amounting to USD10,156,250 (equivalent to ₱513,703,125, inclusive of tax), to the RPS holder.

Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

SMC Global Power has not sold unregistered or exempt securities nor has it issued securities constituting an exempt transaction within the past 3 years, except the following:

1. SMC Global Power Shares

In 2017, the Company issued 500 qualifying shares to Josefina Guevara-Salonga, an Independent Director of the Company. The issuance of the said shares is an exempt transaction under Section 10.1(k) of the SRC.

2. Redeemable Perpetual Securities

Name of Security Sold	Underwriter	Date of Sale	Amount of Securities	Basis for Exemption
Redeemable Perpetual Securities	N/A	March 15, 2018	\$650,000,000.00	Section 10.1(k) of the SRC

3. Senior Perpetual Capital Securities issued and listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”):

Name of Security Sold	Underwriter	Date of Sale	Amount of Securities	Basis for Exemption
Senior Perpetual Capital Securities	N/A	April 25, 2019	\$500,000,000.00	Section 10.1(l) of the SRC
Senior Perpetual Capital Securities	N/A	July 3, 2019	300,000,000.00	Section 10.1(l) of the SRC
Senior Perpetual Capital Securities	N/A	November 5, 2019	500,000,000.00	Section 10.1(l) of the SRC
Senior Perpetual Capital Securities	N/A	January 21, 2020	600,000,000.00	Section 10.1(l) of the SRC
TOTAL			\$1,900,000,000.00	

The Company has not filed a notice with the SEC and has not obtained confirmation for the foregoing exempt transaction.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top-level management with its Manual on Corporate Governance (“Manual”) is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. On August 19, 2011, the Board of Directors adopted the Company’s Manual on Corporate Governance pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, Series of 2009. On April 11, 2016, the Board approved the adoption of the Amended Manual on Corporate Governance of the Company (the “Amended Manual”), incorporating therein, among others, the amendments pursuant to SEC Memorandum Circular 9, Series of 2014. In compliance with SEC Memorandum Circular No. 9, Series of 2016, the Board approved the adoption of further amendments to the Amended Manual on May 5, 2017 (the “2nd Amended Manual”). The Company’s Amended By-laws was also further amended to incorporate the relevant provisions under the 2nd Amended Manual. The aforesaid amendments were approved by the SEC on December 20, 2017. The Amended By-laws of the Company now provides that the 2nd Amended Manual and the Charters of the Board Committees, as may be amended from time to time, shall be suppletory to the same. The 2nd Amended Manual was further revised by the Company on May 12, 2020, which will be accordingly filed with the SEC within the period prescribed (the 3rd Amended Manual) to comply with SEC Memorandum Circular No. 24, Series of 2019, otherwise known as Code of Corporate Governance for Public Companies and Registered Issuers.

Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company, its stockholders and other stakeholders. In fact, some of the directors and officers of SMC Global Power attended a corporate governance training seminar conducted by Risk, Opportunities, Assessments and Management Inc. on November 15, 2019, while others attended a training seminar on Understanding and Analyzing Financial Statements conducted by the Center for Global Best Practices on December 5, 2019. Further, in compliance with SEC Memorandum Circular No. 24, Series of 2019, the Compliance Officer submitted to the SEC its certification dated January 24, 2020, that the Company has substantially adopted all the provisions of its 2nd Amended Manual.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Minutes of the Annual Stockholders' Meeting held on June 4, 2019 (the "2019 Annual Stockholders' Meeting") with the following items:
 - a. Certification of Quorum
 - b. Approval of the Minutes of the Annual Stockholders' Meeting held on June 5, 2018
 - c. Approval of the 2018 Audited Financial Statements
 - d. Election of the Board of Directors
 - e. Ratification of Acts, Proceedings, and Resolutions of the Board of Directors and Corporate Officers
 - f. Appointment of External Auditors
 - g. Other Matters
 - h. Adjournment

A copy of the Minutes of the Annual Stockholders' Meeting held on June 4, 2019 is hereto attached as **Annex "G"** and is available for viewing on the Company's website www.smcglobalpower.com.ph.

The said minutes contain the following information, among others:

- i. Voting and vote tabulation procedures used in the 2019 meeting;
 - ii. Opportunity given to stockholders or members to ask questions;
 - iii. The matters discussed and resolutions reached;
 - iv. A record of the voting results for each agenda item; and
 - v. A list of the directors, officers and stockholders who attended the meeting.
2. Approval of the 2019 Audited Financial Statements;
3. Election of the Board of Directors;
4. Ratification of all acts, proceedings and resolutions of the Board of Directors and Corporate Officers since the 2019 Annual Stockholders' Meeting, which include:
 - a. Approval of the following matters:
 - i. Minutes of Previous Meetings;
 - ii. Issuance of additional SPCS, in an aggregate principal amount of at least USD200,000,000.00³, to be consolidated and form a single series with the USD500,000,000.00 SPCS issued by the Company on April 25, 2019 (collectively, the "6.5% Securities");
 - iii. Quarterly financial performance and financial position of the Company as of June 30, 2019;
 - iv. Capital securities distribution to holders of the USD300 Million USCS which the Company issued on May 7, 2014 (the "7.5% Securities"), amounting to USD11,250,000 plus applicable taxes, payable on November 7, 2019;

³ USD300,000,000 SPCS was actually issued by the Company on July 03, 2019.

- v. Capital securities distribution to holders of the 6.5% Securities⁴, amounting to USD26,000,000 plus applicable taxes, payable on October 25, 2019;
- vi. Distribution to the holders of the USD650 Million Redeemable Perpetual Securities (the “USD650 Million RPS”) which the Company issued on March 15, 2018, amounting to USD10,156,250, payable on September 16, 2019;
- vii. Participation of certain subsidiaries of the Company, specifically SMEC, SPPC, SCPC, MPPCL and MPGC, in the Competitive Selection Processes conducted by Meralco on the following:
 - a. Contract Capacity: 1200 MW (net) from baseload plant with a 10-year term,
 - b. Contract Capacity: 500 MW (net) from mid-merit plant with a 5-year term, and
 - c. Contract Capacity: 1200 MW from greenfield plant with a 20-year term;
- viii. Adoption by the Company, and delegation to management of the finalization, of the SMC Group-wide Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10, Series of 2019;
- ix. Issuance of up to USD500 Million in Undated SPCS (the “USD500 Million SPCS”), which was issued on November 5, 2019;
- x. Quarterly financial performance and financial position of the Company as of September 30, 2019;
- xi. Declaration of Cash Dividend amounting to ₱1,500,000,000.00 by SMCPC to the Company to be paid on or before December 31, 2019;
- xii. Capital security distribution to the holders of the USD300 Million Undated Subordinated Capital Securities issued by SMC Global Power on August 26, 2015 (the “USD300 Million USCS”), amounting to USD10,125,000 plus applicable taxes, payable on February 26, 2020;
- xiii. Distribution to the holders of the USD650 Million RPS, amounting to USD10,156,250, payable on December 16, 2019;
- xiv. Conversion by the Company of its advances to SMC GP Masinloc Partners Company Limited (“MAPACO”) into partnership interests in MAPACO;
- xv. Issuance by the Company of up to USD500 Million Undated SPCS⁵;
- xvi. 2019 Audited Financial Statements of SMC Global Power as of December 31, 2019;
- xvii. Capital securities distribution to holders of the 6.5% Securities, amounting to USD26,000,000 plus applicable taxes, payable on April 25, 2020;
- xviii. Capital securities distribution to holders of the USD500 Million SPCS, amounting to USD14,875,000 plus applicable taxes, payable on May 05, 2020;
- xix. Distribution to the holders of the USD650 Million RPS, amounting to USD10,156,250, payable on March 16, 2020;
- xx. Issuance, offer and sale by the Company of retail bonds of up to ₱30,000,000,000.00 out of the remaining ₱60,000,000,000.00 shelf registration;
- xxi. Issuance by the Company of up to USD600 Million US Dollar Bonds or SPCS;
- xxii. Approval of the 2030 Internal Audit Plan;
- xxiii. Approval of the 2019 Self-Rating Forms;
- xxiv. Quarterly financial performance and financial position of the Company as of March 31, 2020;
- xxv. Distribution to the holders of the USD650 Million RPS, amounting to USD10,156,250, payable on June 16, 2020;
- xxvi. Capital security distribution to the holders of the USD300 Million USCS, amounting to USD10,125,000, payable on August 26, 2020;
- xxvii. Capital securities distribution to holders of the USD600 Million SPCS, amounting to USD17,100,000, payable on July 21, 2020;

⁴ Comprised of the USD500,000,000.00 SPCS (the “6.5% Securities”) issued by the Company on April 25, 2019 and the USD300,000,000 SPCS issued by the Company on July 3, 2019.

⁵ On January 21, 2020 the Company issued USD600,000,000.00 Senior Perpetual Capital Securities (hereinafter referred to as the “USD600 Million SPCS”).

- xxviii. Details of the 2020 Annual Stockholders' Meeting of the Company, including the internal procedures for the conduct of 2020 Annual Stockholders' Meeting via remote communication through teleconferencing, in accordance with existing rules and guidelines promulgated by the SEC;
- xxix. Report on the qualifications of the nominees for the election to the Board of Directors of the Company to be held on the 2020 Annual Stockholders' Meeting;
- xxx. Report on the validation of the results by the Corporate Governance Committee and the Compliance Officer of the Performance Assessments of the Board Committees, the Board of Directors and Management of the Company;
- xxxi. Approval of the 3rd Amended Manual; and
- xxxii. Delegation to Management of the finalization and filing of the 3rd Amended Manual to the SEC;

b. Election and Appointment of officers;

c. Appointment of the members of the Board Committees;

d. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions; and

e. Update and Ratification of Actions Taken for the Corporate Restructuring of the Masinloc Group; and

5. Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2020.

The Minutes of the 2019 Annual Stockholders' Meeting, and the Minutes of the Board of Directors Meetings beginning June 4, 2019, will be available for examination by the stockholders of the Company during office hours at the Office of the Corporate Secretary.

VOTING PROCEDURES

For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors.

Considering that the 2020 Annual Stockholders' Meeting will be held via teleconference, votes of all stockholders on any or all of the proposals or matters submitted at the meeting can be cast through ballots or proxies submitted on or before May 19, 2020 by email sent to 2020ASM@smcgph.sanmiguel.com.ph or by mail sent to the Office of the Corporate Secretary at No. 40 San Miguel Avenue, Mandaluyong City. A sample of the ballot and proxy included in this Definitive Information Statement.

For an individual, his/her ballot or proxy must be accompanied by a valid government-issued ID with a photo. For a corporation, its proxy must be accompanied by its corporate secretary's certification stating the representative's authority to represent the corporation in the meeting. Validation of ballots and proxies will be on May 26, 2020 at 2:00 p.m. at the Office of the Corporate Secretary at the above-mentioned address.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in pages 7-8 and 10-11 of this Definitive Information Statement shall be adopted. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors.

UNDERTAKING

The Company undertakes to post the full version of this Definitive Information Statement under SEC Form 20-IS, together with all its annexes on the Company's website www.smcglobalpower.com.ph upon its approval by the SEC.

The Company undertakes to provide any requesting stockholder, free of charge, a printed or electronic copy of its 2019 Annual Report under SEC Form 17-A and the 1st Quarter 2020 Financial Report under SEC Form 17-Q, at the stockholder's option, upon written request addressed to the Office of the Corporate Secretary and Compliance Officer, SMC Global Power Holdings Corp., No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on **May 12, 2020**.

SMC GLOBAL POWER HOLDINGS CORP.

By:

A handwritten signature in black ink, appearing to be 'V. Jacinto', is written over a light gray rectangular background.

Virgilio S. Jacinto

Corporate Secretary and Compliance Officer

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JACK G. ARROYO, JR.**, Filipino, of legal age and a resident of C-302 Galeria de Magallanes, Lapu-Lapu St., Magallanes Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.** and has been its independent director since 2 September 2011.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/Relationship</i>	<i>Period of Service</i>
Casino Español de Manila	President Member of the Board	2015 to present 2010 to present
Philippine Society of Cataract and Refractive Surgery (PSCRS)	Member of the Board of Trustees and Treasurer	2001 to present
Centrist Democratic Political Educators, Inc. (CDPI)	Vice President of the National Capital Region	December 2016 to present
Philippine Healthcare Educators, Inc. (PHEI)	Member of the Board of Directors	2003 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **SMC GLOBAL POWER HOLDINGS CORP.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **SMC GLOBAL POWER HOLDINGS CORP.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 11 May 2020 at Makati City.


JACK G. ARROYO, JR.
 Affiant

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CONSUELO M. YNARES-SANTIAGO**, Filipino, of legal age and a resident of No. 4 Queensville cor. Derby Streets, White Plains, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.** and has been its independent director since 2 September 2011.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/Relationship</i>	<i>Period of Service</i>
Top Frontier Investment Holdings, Inc.	Independent Director	2013 to present
Anchor Insurance Brokerage Corporation	Independent Director	2012 to present
South Luzon Tollway Corporation	Independent Director	2015 to present
Phoenix Petroleum Phil. Inc.	Independent Director	2013 to Present
National Sandigan Foundation of the Philippines	Member	2009 to present
Tahanan Outreach Program Services (TOPS)	Member, Board of Directors	2014 to present
UP Women Lawyers' Circle (WILOCI)	Consultant	2002 to present
Women's Lawyers' Association of the Philippines	Member	1990 to present
Federacion Internacional de Abogados	Member	1990 to present
Apostleship of Prayer Association	Member	2002 to present
Retired Supreme Court Justices Association of the Philippines	Member	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **SMC GLOBAL POWER HOLDINGS CORP.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **SMC GLOBAL POWER HOLDINGS CORP.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 11 May 2020 at Quezon City.


CONSUELO M. YNARES-SANTIAGO
Affiant

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSEFINA GUEVARA-SALONGA**, Filipino, of legal age and a resident of 44 Magallanes Avenue, Magallanes Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.** and has been its independent director since 7 November 2017.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/ Relationship</i>	<i>Period of Service</i>
Tahanan Outreach Program and Service (TOPS)	Trustee	2010-Present
San Pedro, Laguna Lawyers' Association	Member	Present
WILOCI (U.P.) Lawyers' Association	Member	1966-Present
Philippine Women Judges' Association	Member	Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **SMC GLOBAL POWER HOLDINGS CORP.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **SMC GLOBAL POWER HOLDINGS CORP.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **SMC GLOBAL POWER HOLDINGS CORP.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 12 May 2020 at Makati City.


Josefina Guevara-Salonga

Affiant

COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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

S	M	C		G	L	O	B	A	L		P	O	W	E	R		H	O	L	D	I	N	G	S						
C	O	R	P	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S									
(A		W	h	o	l	i	y	-	o	w	n	e	d		S	u	b	s	i	d	i	a	r	y		o	f		
S	a	n		M	i	g	u	e	l		C	o	r	p	o	r	a	t	i	o	n)								

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

1	5	5		E	D	S	A	,		B	r	g	y	.		W	a	c	k	-	W	a	c	k					
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														
M	e	t	r	o		M	a	n	i	l	a																		

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

702-4500

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

June / 1st Tuesday

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Paul Bernard D. Causon

Email Address

pcauson@smcgph.sanmiguel.com.ph

Telephone Number/s

702-4500

Mobile Number

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

(A Wholly-owned Subsidiary of San Miguel Corporation)

CONSOLIDATED FINANCIAL STATEMENTS December 31, 2019, 2018 and 2017

With Independent Auditors' Report



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matter

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter is addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of Goodwill (P69,944 million)

Refer to Note 3, Significant Accounting Policies, Note 4, Use of Judgments, Estimates and Assumptions, Note 5, Business Combination, and Note 16, Goodwill and Other Intangible Assets.

The risk -

The Group recognized a significant amount of goodwill arising from the acquisition of Masinloc Group. The annual impairment test on goodwill was significant to our audit since the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions including future cash flow projections, growth rate and discount rate.

Our response -

We performed the following audit procedures, among others, on the valuation of goodwill:

- We tested the integrity and reasonableness of the discounted cash flow model used by the Group. This involved evaluating the model used and assumptions applied and comparing these assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, inflation and discount rates, as well as performing our own sensitivity analysis on the assumptions.
- We evaluated the adequacy of the disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A as at and for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-031-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8116787

Issued January 2, 2020 at Makati City

March 9, 2020

Makati City, Metro Manila



SMC GLOBAL POWER

155 EDSA, Barangay Wack-wack,
Mandaluyong City, 1550
1550 Metro Manila, Philippines
[632] 667 5000 Fax [632] 667 5188
www.sanmiguel.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of **SMC Global Power Holdings Corp.** (the "**Company**") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors (BOD) is responsible for overseeing the Company's financial reporting process.

The BOD reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

RAMON S. ANG
Chairman of the Board & CEO
President & COO

PAUL BERNARD D. CAUSON
Chief Finance Officer

Signed this 9th day of March 2020

ACKNOWLEDGMENT

Republic of the Philippines)
Quezon City) S. S.

Before me, a Notary Public for and in Quezon City, this 9th day of March 2020, personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date/Place of Issue</u>
Ramon S. Ang	P2247867B	05/22/19/DFA-MANILA
Paul Bernard D. Causon	P8120059A	07/27/18/DFA-NCR East

known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto affixed my notarial seal at the date and place first above written.

Doc. No.: 247;
Page No.: 51;
Book No.: 11;
Series of 2020

MCAMMian
ATTY. MARY CATHERINE A. DAMIAN
Notary Public for Quezon City until December 31, 2020
Unit 9 Bldg. 2 Acacia Residence Halls Support Area
Laurel Ave., UP Diliman, Quezon City
Adm. Matter No. NP-195 (2019-2020); Roll No. 43243
IBP No. AR46990355; Quezon City Chapter; 01-06-2020
PTR No. 9344700 C; Quezon City; 01-06-2020
MCLE Compliance No. VI-0023344; 04-11-19; Pasig City

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(In Thousands)

	<i>Note</i>	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	8, 31, 32	P79,954,187	P28,511,862
Trade and other receivables - net	4, 7, 9, 21, 31, 32	29,989,449	33,046,686
Inventories	4, 7, 10, 21	5,085,423	5,294,631
Prepaid expenses and other current assets	7, 11	23,589,625	21,761,716
Total Current Assets		138,618,684	88,614,895
Noncurrent Assets			
Investments and advances - net	4, 12	11,000,760	12,148,986
Property, plant and equipment - net	3, 4, 7, 13	150,344,032	312,315,406
Right-of-use assets - net	3, 7, 14	166,517,296	-
Deferred exploration and development costs	3, 4, 7, 15	710,836	705,458
Goodwill and other intangible assets - net	4, 5, 7, 15, 16	72,771,271	72,613,363
Deferred tax assets	4, 28	1,128,754	1,137,565
Other noncurrent assets	17, 21, 31, 32	16,027,360	6,314,562
Total Noncurrent Assets		418,500,309	405,235,340
		P557,118,993	P493,850,235
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	18, 31, 32	P2,278,575	P8,675,700
Accounts payable and accrued expenses	19, 21, 31, 32	35,402,892	31,109,917
Lease liabilities - current portion	4, 7, 31, 32	23,085,083	19,659,645
Income tax payable		214,776	310,882
Current maturities of long-term debt - net of debt issue costs	20, 31, 32	6,036,174	4,939,454
Total Current Liabilities		67,017,500	64,695,598
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	20, 31, 32	220,762,867	202,025,806
Deferred tax liabilities	28	13,197,658	8,180,119
Lease liabilities - net of current portion	4, 7, 31, 32	101,117,596	122,347,416
Other noncurrent liabilities	4, 7, 21, 22, 31, 32	1,598,616	843,571
Total Noncurrent Liabilities		336,676,737	333,396,912
Total Liabilities		403,694,237	398,092,510

Forward

	Note	2019	2018
Equity	23		
Capital stock		P1,062,504	P1,062,504
Additional paid-in capital		2,490,000	2,490,000
Senior perpetual capital securities		65,885,565	-
Redeemable perpetual securities		32,751,570	32,751,570
Undated subordinated capital securities		13,823,499	26,933,565
Equity reserves	22, 32	(2,568,395)	618,307
Retained earnings		38,987,442	31,901,779
		152,432,185	95,757,725
Non-controlling Interests	12	992,571	-
Total Equity		153,424,756	95,757,725
		P557,118,993	P493,850,235

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands, Except Per Share Data)

	<i>Note</i>	2019	2018	2017
REVENUES	5, 21, 24, 34	P135,060,079	P120,102,847	P82,790,575
COST OF POWER SOLD	25	91,758,200	80,818,306	53,825,314
GROSS PROFIT		43,301,879	39,284,541	28,965,261
SELLING AND ADMINISTRATIVE EXPENSES	26	7,348,194	6,110,210	4,688,981
INCOME FROM OPERATIONS		35,953,685	33,174,331	24,276,280
INTEREST EXPENSE AND OTHER FINANCING CHARGES	7, 13, 18, 19, 20	(19,720,720)	(17,616,056)	(13,244,581)
INTEREST INCOME	8	1,585,459	661,212	460,958
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	12	(391,054)	(471,236)	(40,396)
OTHER INCOME (CHARGES) - Net	7, 13, 27	4,199,255	(3,546,602)	2,944,165
INCOME BEFORE INCOME TAX		21,626,625	12,201,649	14,396,426
INCOME TAX EXPENSE	28, 29	7,263,116	3,901,532	6,179,510
NET INCOME		P14,363,509	P8,300,117	P8,216,916
Attributable to:				
Equity holders of the Parent Company	30	P14,370,482	P8,281,774	P8,216,916
Non-controlling interests		(6,973)	18,343	-
		P14,363,509	P8,300,117	P8,216,916
Earnings Per Common Share Attributable to Equity Holders of the Parent Company				
Basic/Diluted	30	P5.21	P2.67	P4.11

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	<i>Note</i>	2019	2018	2017
NET INCOME		P14,363,509	P8,300,117	P8,216,916
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan - net	22, 28	(42,312)	30,682	2,739
Share in other comprehensive income (loss) of an associate - net	12	(517)	1,002	-
		(42,829)	31,684	2,739
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		(989,010)	145,256	-
Net loss on cash flow hedges	32	(38,066)	(1,844)	-
		(1,027,076)	143,412	-
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		(1,069,905)	175,096	2,739
TOTAL COMPREHENSIVE INCOME - Net of tax		P13,293,604	P8,475,213	P8,219,655
Attributable to:				
Equity holders of the Parent Company		P13,300,577	P8,456,870	P8,219,655
Non-controlling interests		(6,973)	18,343	-
		P13,293,604	P8,475,213	P8,219,655

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

Equity Attributable to Equity Holders of Parent Company														
Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Senior Perpetual Capital Securities	Equity Reserves				Retained Earnings	Total	Non-controlling Interests	Total Equity	
						Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve					
As at January 1, 2019, as previously reported (Audited)	P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725	
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16	3	-	-	-	-	-	-	-	-	(18,917)	(18,917)	-	(18,917)	
As at January 1, 2019, as adjusted	1,062,504	2,490,000	32,751,570	26,933,565	-	466,843	145,256	8,052	(1,844)	31,882,862	95,738,808	-	95,738,808	
Net income	-	-	-	-	-	-	-	-	-	14,370,482	14,370,482	(6,973)	14,363,509	
Other comprehensive income - net of tax	-	-	-	-	-	-	(989,010)	(42,829)	(38,066)	-	(1,069,905)	-	(1,069,905)	
Total comprehensive income	-	-	-	-	-	-	(989,010)	(42,829)	(38,066)	14,370,482	13,300,577	(6,973)	13,293,604	
Reversal of reserve for retirement plan	22	-	-	-	-	-	333	(28,626)	-	28,293	-	-	-	
Issuance of senior perpetual capital securities	23, 33	-	-	-	65,885,565	-	-	-	-	65,885,565	-	-	65,885,565	
Redemption of undated subordinated capital securities	23, 33	-	-	(13,110,066)	-	(2,072,934)	-	-	-	-	(15,183,000)	-	(15,183,000)	
Non-controlling interests from acquisition of an asset	12	-	-	-	-	(15,570)	-	-	-	-	(15,570)	999,544	983,974	
Share issuance costs	-	-	-	-	-	-	-	-	-	(281,201)	(281,201)	-	(281,201)	
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	(3,183,367)	(3,183,367)	-	(3,183,367)	
Redeemable perpetual securities	23	-	-	-	-	-	-	-	-	(2,096,758)	(2,096,758)	-	(2,096,758)	
Senior perpetual capital securities	23	-	-	-	-	-	-	-	-	(1,732,869)	(1,732,869)	-	(1,732,869)	
Transactions with owners	-	-	-	(13,110,066)	65,885,565	(2,088,504)	333	(28,626)	-	(7,265,902)	43,392,800	999,544	44,392,344	
As at December 31, 2019	P1,062,504	P2,490,000	P32,751,570	P13,823,499	P65,885,565	(P1,621,661)	(P843,421)	(P63,403)	(P39,910)	P38,987,442	P152,432,185	P992,571	P153,424,756	
As at January 1, 2018, as previously reported (Audited)	P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512	
Adjustments due to PFRS 15	-	-	-	-	-	-	-	-	-	(49,405)	(49,405)	-	(49,405)	
As at January 1, 2018, as adjusted	1,062,504	2,490,000	-	26,933,565	-	785,279	-	(23,632)	-	28,468,391	59,716,107	-	59,716,107	
Net income	-	-	-	-	-	-	-	-	-	8,281,774	8,281,774	18,343	8,300,117	
Other comprehensive income (loss) - net of tax	22, 32	-	-	-	-	-	145,256	31,684	(1,844)	-	175,096	-	175,096	
Total comprehensive income	-	-	-	-	-	-	145,256	31,684	(1,844)	8,281,774	8,456,870	18,343	8,475,213	
Issuance of redeemable perpetual securities	5, 23	-	32,751,570	-	-	-	-	-	-	-	32,751,570	-	32,751,570	
Non-controlling interest from acquisition of subsidiaries	5	-	-	-	-	-	-	-	-	-	-	198,077	198,077	
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	(4,049)	(4,049)	
Acquisition of non-controlling interest	12	-	-	-	-	(318,436)	-	-	-	(4,050)	(322,486)	(212,371)	(534,857)	
Share issuance costs	-	-	-	-	-	-	-	-	-	(7,855)	(7,855)	-	(7,855)	
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	(3,215,290)	(3,215,290)	-	(3,215,290)	
Redeemable perpetual securities	23	-	-	-	-	-	-	-	-	(1,621,191)	(1,621,191)	-	(1,621,191)	
Transactions with owners	-	-	32,751,570	-	-	(318,436)	-	-	-	(4,848,386)	27,584,748	(18,343)	27,566,405	
As at December 31, 2018	P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725	
As at January 1, 2017	P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P26,371)	P -	P23,425,647	P54,670,624	P -	P54,670,624	
Net income	-	-	-	-	-	-	-	-	-	8,216,916	8,216,916	-	8,216,916	
Other comprehensive income - net of tax	22	-	-	-	-	-	-	2,739	-	-	2,739	-	2,739	
Total comprehensive income	-	-	-	-	-	-	-	2,739	-	8,216,916	8,219,655	-	8,219,655	
Share issuance costs	-	-	-	-	-	-	-	-	-	(50,563)	(50,563)	-	(50,563)	
Distributions:														
Undated subordinated capital securities	23	-	-	-	-	-	-	-	-	(3,074,204)	(3,074,204)	-	(3,074,204)	
Transactions with owners	-	-	-	-	-	-	-	-	-	(3,124,767)	(3,124,767)	-	(3,124,767)	
As at December 31, 2017	P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512	

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Thousands)

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM				
OPERATING ACTIVITIES				
Income before income tax		P21,626,625	P12,201,649	P14,396,426
Adjustments for:				
Interest expense and other financing charges	7, 18, 20	19,710,034	17,616,056	13,244,581
Depreciation and amortization	7, 13, 14, 15, 25, 26	9,917,656	9,340,235	6,064,931
Equity in net losses of associates and joint ventures	12	391,054	471,236	40,396
Impairment losses on trade and other receivables	9, 26	257,879	135,426	-
Impairment losses on property, plant and equipment	13, 27	35,084	70,265	-
Impairment losses on concession assets	25	29,575	-	-
Loss on retirement of property, plant and equipment	13, 27	66	34,869	-
Gain on sale of property, plant and equipment	13	(1,402)	-	-
Unrealized marked - to - market gain on derivatives	32	(57,558)	(23,036)	(61,903)
Retirement cost (benefit)	22	(136,488)	32,525	12,653
Interest income	8, 17	(1,585,459)	(661,212)	(460,958)
Unrealized foreign exchange losses (gains) - net		(4,208,210)	4,032,084	(786,921)
Operating income before working capital changes		45,978,856	43,250,097	32,449,205
Decrease (increase) in:				
Trade and other receivables - net	9	2,507,863	(5,499,476)	2,114,023
Inventories	10	135,620	266,017	(875,379)
Prepaid expenses and other current assets	11	(1,881,731)	(9,936,971)	(982,825)
Increase (decrease) in:				
Accounts payable and accrued expenses	19	4,491,594	1,101,159	(4,864,843)
Other noncurrent liabilities and others		812,602	54,694	14,521
Cash generated from operations		52,044,804	29,235,520	27,854,702
Interest income received		1,547,373	687,752	395,960
Income taxes paid		(2,189,655)	(2,550,880)	(1,242,012)
Interest expense and other financing charges paid		(21,443,487)	(12,113,199)	(5,163,304)
Net cash flows provided by operating activities		29,959,035	15,259,193	21,845,346

Forward

	Note	2019	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	13	P1,817	P -	P54,184
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	-	(97,333,757)	-
Acquisition of non-controlling interests	23	-	(532,425)	-
Additions to deferred exploration and development costs	15	(5,011)	(6,457)	(5,622)
Additions to investments and advances	12	(197,275)	(471,385)	(416,073)
Additions to intangible assets	7, 16	(211,183)	(140,210)	(132,474)
Additions to property, plant and equipment	13, 18, 20	(10,117,487)	(6,049,753)	(8,911,531)
Decrease (increase) in other noncurrent assets		(7,986,063)	2,499,277	(6,867,810)
Net cash flows used in investing activities		(18,515,202)	(102,034,710)	(16,279,326)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of senior perpetual capital securities	23	65,885,565	-	-
Proceeds from long-term debt	20, 33	34,834,600	106,026,200	77,000,000
Proceeds from short-term borrowings	18, 33	9,179,550	41,937,600	113,419,200
Proceeds from issuance of redeemable perpetual securities	23	-	32,751,570	-
Cash dividends paid to previous holder of non-controlling interest		-	(4,050)	-
Payment of stock issuance costs		(281,201)	(7,855)	(50,563)
Distributions paid to senior perpetual capital securities holders	23	(1,732,869)	-	-
Distributions paid to redeemable perpetual securities holders	23	(2,096,758)	(1,621,191)	-
Distributions paid to undated subordinated capital securities holders	23	(3,183,367)	(3,215,290)	(3,074,204)
Payments of long-term debt	20, 33	(12,406,504)	(22,112,232)	(53,110,468)
Redemption of undated subordinated capital securities	23	(15,183,000)	-	-
Payments of short-term borrowings	18, 33	(15,436,350)	(41,510,000)	(107,782,255)
Payments of lease liabilities	7, 33	(19,297,119)	(25,715,487)	(24,874,993)
Net cash flows provided by financing activities		40,282,547	86,529,265	1,526,717
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(284,055)	102,755	71,237
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		51,442,325	(143,497)	7,163,974
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		28,511,862	28,655,359	21,491,385
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	8	P79,954,187	P28,511,862	P28,655,359

See Notes to the Consolidated Financial Statements.

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

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

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, assign, lease, develop, operate and dispose of all properties of every kind and description, including shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

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

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

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 9, 2020.

Basis of Measurement

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership	
	2019	2018
Power Generation		
San Miguel Energy Corporation (SMEC)	100	100
South Premiere Power Corp. (SPPC)	100	100
Strategic Power Devt. Corp. (SPDC)	100	100
SMC PowerGen Inc. (SPI)	100	100
SMC Consolidated Power Corporation (SCPC) ^(a)	100	100
San Miguel Consolidated Power Corporation (SMCPC) ^(b)	100	100
Central Luzon Premiere Power Corp. (CLPPC)	100	100
Lumiere Energy Technologies Inc. (formerly Limay Premiere Power Corp. [LPPC]) ^(c)	100	100
PowerOne Ventures Energy Inc. (PVEI) ^(d)	100	100
Prime Electric Generation Corporation (PEGC)	100	100
Oceantech Power Generation Corporation	100	100
Masinloc Power Partners Co. Ltd. (MPPCL) ^{(e) (f)}	100	100
Masinloc Energy Resources Inc.	100	100
Power Ventures Generation Corporation	100	100
TopGen Energy Development Inc.	100	100
Universal Power Solutions, Inc. (formerly Limay Power Generation Corporation [LPGC]) ^(g)	100	100
Mariveles Power Generation Corporation (MPGC) ^(h)	90	49
Everest Power Development Corporation ⁽ⁱ⁾	100	-
SMC Global Light and Power Corp. ⁽ⁱ⁾	100	-
Prestige Power Resources Inc. ⁽ⁱ⁾	100	-
Reliance Energy Development Inc. ⁽ⁱ⁾	100	-
Ascend Power Resources Inc. ⁽ⁱ⁾	100	-
Converge Power Generation Corp. ⁽ⁱ⁾	100	-
EnergyCore Resources Inc. ⁽ⁱ⁾	100	-
Strategic Energy Development Inc. ⁽ⁱ⁾	100	-
Excellent Energy Resources Inc. ⁽ⁱ⁾	100	-
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	100	100
Albay Power and Energy Corp. (APEC)	100	100
SMC Power Generation Corp. (SPGC) ^(j)	100	100
Coal Mining		
Daguma Agro-Minerals, Inc. (DAMI) ^(k)	100	100
Sultan Energy Phils. Corp. (SEPC) ^(k)	100	100
Bonanza Energy Resources, Inc. (BERI) ^(k)	100	100
Others		
Mantech Power Dynamics Services Inc.	100	100
Safetech Power Services Corp.	100	100
Ondarre Holding Corporation	100	100
Grand Planters International, Inc.	100	100
Golden Quest Equity Holdings Inc. ^(k)	100	100
SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) ^{(e) (l)}	100	100
SMCGP Philippines Inc.: (formerly AES Philippines, Inc. [API]) ^{(e) (m)}	100	100

(a) Owner of the 4 x 150 megawatts (MW) Circulating Fluidized Bed (CFB) coal-fired power plant in Limay, Bataan (Phase I and II Limay Greenfield Power Plant) (Notes 12 and 13).

(b) Owner of the 2 x 150 MW CFB coal-fired power plant in Malita, Davao (Davao Greenfield Power Plant) (Notes 12 and 13).

(c) On November 15, 2019, LPPC changed its name to Lumiere Energy Technologies Inc. (LETI).

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

(e) Acquired in March 2018 (Note 5).

(f) Indirectly owned by the Parent Company, through its wholly-owned subsidiary SMCGP Masin Pte. Ltd. (formerly Masin-AES Pte. Ltd. [MAPL]), and owner of the Masinloc Power Plant (Note 5).

(g) On September 24, 2019, LPGC changed its name to Universal Power Solutions, Inc. (UPSI).

(h) The Parent Company subscribed the remaining unissued common shares of MPGC in January and September 2019, thereby increasing its ownership interest from 49% to 89.5% as at December 31, 2019. Non-controlling interests represent the 10.1% and 0.4% held by Meralco PowerGen Corporation and by Zygnat Prime Holdings, Inc., respectively. It has not yet started commercial operations as at December 31, 2019 (Note 12).

(i) Incorporated in 2019 and have not yet started commercial operations as at December 31, 2019.

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

(k) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as at December 31, 2019.

(l) On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. (SMCGP Masin) and SMCGP Transpower Pte. Ltd. (SMCGP Transpower), respectively.

(m) On May 22, 2018, API changed its name to SMCGP Philippines Inc. (SPHI).

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

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

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

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

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

Non-controlling interests include the interests not held by the Parent Company in MPGC as at December 31, 2019 and in Alpha Water and Realty Services Corp. ("Alpha Water") for the period covering March 20, 2018 to July 13, 2018 (Note 12).

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 7.50% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position.

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	<i>Note</i>	Increase (Decrease)
ASSETS		
Property, plant and equipment - net	13	(P167,531,002)
Right-of-use assets - net	14	168,815,696
Deferred exploration and development costs	15	367
Deferred tax assets	28	5,285
		P1,290,346
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses		(P132,818)
Lease liabilities - current portion		39,317
Lease liabilities - net of current portion		1,411,150
Deferred tax liabilities	28	(8,386)
Total Liabilities		1,309,263
Retained earnings		(18,917)
Total Equity		(18,917)
		P1,290,346

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P2,998,943
Extension option reasonably certain to be exercised	481,086
Recognition exemption for short-term leases	(990)
Effect from discounting at the incremental borrowing rate as at January 1, 2019	(2,028,572)
Lease liabilities recognized based on the initial application of PFRS 16 as at January 1, 2019	1,450,467
Finance lease liabilities recognized as at December 31, 2018	142,007,061
Lease liabilities recognized as at January 1, 2019	P143,457,528

- Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:
 - *Prepayment Features with Negative Compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.
 - *Modification of Financial Liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

New and Amended Standards and Framework Not Yet Adopted

A number of new and amended standards and framework are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2020.

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

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

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

The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*). The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:
 - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
 - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
 - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.
 - *Separately Identifiable Risk Components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

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

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The amendments apply for annual reporting periods beginning on or after January 1, 2020, with early application permitted.

The amendments are still subject to the approval by the FRSC.

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

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

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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments, noncurrent receivables and restricted cash are included under this category (Notes 8, 9, 11, 17, 31 and 32).

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

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

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

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

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

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

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

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

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

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

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 11, 31 and 32).

Financial Liabilities

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

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

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

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 19, 31 and 32).

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

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 18, 19, 20, 31 and 32).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

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

Freestanding Derivatives

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

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

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

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

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

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

The Group has outstanding derivative assets accounted for as cash flow hedge as at December 31, 2019 and 2018 (Notes 17, 31 and 32).

Embedded Derivatives

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

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

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

The Group has no embedded derivatives as at December 31, 2019 and 2018.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification method and weighted average method for coal inventories and weighted average method for fuel oil and other consumables, and spare parts. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the consolidated statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Acquisition of an Entity that does not Constitute a Business

If the Group acquires an entity that does not constitute a business, then the transaction is outside the scope of PFRS 3. The transaction is accounted for as asset acquisition in which the cost of acquisition is allocated between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. The transaction does not give rise to goodwill.

The Group recognized the related non-controlling interest based on proportionate share of net assets.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net losses of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income.

The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of an associate" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in an associate or joint venture upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less impairment in value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease, whichever is shorter
Other equipment	2 - 20
Building	10 - 25

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Leases

Policy Applicable from January 1, 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use:

- the Group has the right to obtain substantially all the economic benefits from use of the identified asset; and
- the Group has the right to direct the use of the identified asset.

Group as Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term as follows:

	Number of Years
Land	5 - 28
Buildings and improvements	2 - 5
Powerplants	29 - 43

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

Group as Lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is classified as a finance lease; if not, it is classified as an operating lease. As part of the assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sublease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15, *Revenue from Contracts with Customers*, to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as rent income on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of intangible assets with finite lives:

	Number of Years
Power concession right	25
Computer software and licenses	3

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Agreements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entity in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entity in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group's power concession right pertains to the right granted by the Government to the Parent Company, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). The Group's power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The useful life of power concession right is assessed to be either finite or indefinite. Power concession right arising from a service concession arrangement is amortized using straight-line method over the concession period, which is 25 years from the first day of the commencement of operations, or the estimated useful lives of the infrastructure, whichever is shorter, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and method are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the concession assets.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

An entity recognizes and measures revenue in accordance with PFRS 15 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative stand-alone selling prices of the services delivered.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Concession payable is recognized at the date of inception of the concession agreement. Fixed concession fees are recognized at present value using the discount rate at the inception date. This account is debited upon payment of fixed fees and such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession payable is presented under "Interest expense and other financing charges" account in the consolidated statements of income.

Concession payable that are expected to be settled within 12 months after the reporting date are classified as current liabilities. Otherwise, these are classified as noncurrent liabilities.

Mining Rights

The Group's mining rights have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mining rights is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mining rights is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mining rights, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Fair Value Measurements

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

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

ARO. The Group records a provision for asset retirement costs of its power plants. Asset retirement costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of right-of-use assets. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the retirement liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of income as part of "Interest expense and other financing charges" account in the consolidated statements of income. The estimated future costs of asset retirement are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the right-of-use assets (previously in the cost of power plants). If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income.

Capital Stock, Additional Paid-in Capital and Reserves

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Equity Reserves

The equity reserves include the effect of transactions with non-controlling interests and equity adjustments arising from group restructuring transactions.

Translation Reserves

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

Reserve for Retirement Plan

The reserve for retirement plan represents re-measurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest).

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or non-financial liability.

The hedging reserve also includes cost of hedging which reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts, time value of options and foreign currency basis spread which are initially recorded in other comprehensive income.

Redeemable Perpetual Securities (RPS), Undated Subordinated Capital Securities (USCS) and Senior Perpetual Capital Securities (SPCS)

RPS, USCS and SPCS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of RPS, USCS and SPCS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to RPS, USCS and SPCS.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend, distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Revenue

The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenues are inclusive of pass-through charges, net of value-added tax (VAT) and other fees collected on behalf of other parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power

Revenue from power generation and trading is recognized over time when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services

Revenue from retail and other power-related services are recognized over time upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Other Services

Revenue from other services is recognized when the related services are rendered.

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

Management Income. Management income is recognized when earned in accordance with the terms of the agreement.

Rent Income. Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Construction Revenue. Construction revenue related to the Group's recognition of intangible asset on the right to operate and maintain the franchise of ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate and maintain the franchise of ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on lease liabilities, loans, concession payable, premium on option liabilities and other borrowings. Finance charges on lease liabilities, loans, concession payable and premium on option liabilities are recognized in the consolidated statements of income using the effective interest method.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement obligation is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- Remeasurements of defined benefit retirement liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are initially recorded in the respective functional currency of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of monetary items that in substance form part of a net investment in a foreign operation and hedging instruments in a qualifying cash flow hedge or hedge of a net investment in a foreign operation, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserves" account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" accounts in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of RPS, USCS and SPCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

As at December 31, 2019, 2018 and 2017, the Group has no dilutive equity instruments as disclosed in Note 30 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. Financial Information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker; CODM) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Determining whether an Arrangement Contains Lease (Prior to the Adoption of PFRS 16). The Group uses its judgement in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Finance Lease - Group as Lessee (Prior to the Adoption of PFRS 16). The Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM) provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements, the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MPPCL also entered into a lease agreement with PSALM for the lease of land where a portion of the Masinloc Power Plant is situated.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and land. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 13).

Lease liabilities under finance leases recognized in the consolidated statements of financial position amounted to P142,007,061 as at December 31, 2018 (Notes 7, 31 and 32).

The combined carrying amounts of power plants and land under finance lease amounted to P168,266,667 as at December 31, 2018 (Note 13).

Operating Lease Commitments - Group as Lessor/Lessee (Prior to the Adoption of PFRS 16). The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Note 7).

Rent income recognized in the consolidated statements of income amounted to P12,274, P6,170 and P10,686 in 2019, 2018 and 2017, respectively (Notes 7 and 27).

Rent expense recognized in the consolidated statements of income amounted to P356,606 and P376,499 in 2018 and 2017, respectively (Notes 7 and 26).

Determining the Lease Term of Contracts with Renewal Options - Group as Lessee (Upon the Adoption of PFRS 16). The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Group has several lease contracts that include extension options. At lease commencement date, the Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

Estimating the Incremental Borrowing Rate. The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgments estimates.

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The Group has determined that it has distinct performance obligations other than the sale of power such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Determining Whether the Group is acting as a Principal or Agent in a Revenue Transaction. The determination whether the Group is a principal or agent in a contract is made by identifying each specified goods or services promised to the customers in the contract and evaluating whether the Group obtains control of the specified goods and services before it is transferred to the customer.

For the sale of power and retail and other power-related services, the Group has the obligation to provide a recurring service to the customer over the contract term and transfers control upon delivery, hence, the Group has determined that it is acting as principal in these revenue arrangements with customers.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with ALECO, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation. Management determined that the consideration receivable, in exchange for the fulfillment of the Group's obligation under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the costs components of acquiring the right (Notes 3, 7 and 16).

Power Concession Right. The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms, and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in AHC and KWPP as joint ventures (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classification of Financial Instruments. The Group exercises judgments in classifying financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 32.

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 34).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment of ECL on Trade and Other Receivables. The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other receivables. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade and other receivables is not material because substantial amount of trade and other receivables are normally collected within one year. Moreover, based on the management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade and other receivables.

In 2019 and 2018, the Group recognized impairment on trade and other receivables amounting to P257,879 and P135,426, respectively. The allowance for impairment losses on trade and other receivables amounted to P2,828,484 and P2,574,423 as at December 31, 2019 and 2018, respectively. The carrying amount of trade and other receivables amounted to P29,989,449 and P33,046,686 as at December 31, 2019 and 2018, respectively (Note 9).

Assessment of ECL on Other Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12 months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2019	2018
Cash and cash equivalents	8	P79,954,187	P28,511,862
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	11	-	54,009
Noncurrent receivables (included under "Other noncurrent assets" account)	17	416,722	265,298
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	11, 17	6,689,975	4,742,219
		P87,060,884	P33,573,388

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 11, 17, 19 and 32.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The Group assessed that no write-down of inventories to net realizable value is necessary as at December 31, 2019 and 2018.

The carrying amount of inventories amounted to P5,085,423 and P5,294,631 as at December 31, 2019 and 2018, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment and Right-of-Use Assets. The Group estimates the useful lives of property, plant and equipment and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and right-of-use assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment and right-of-use assets would increase the recorded cost of power sold and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P150,446,434 and P312,385,671 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P8,930,435 and P52,054,109 as at December 31, 2019 and 2018, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization, amounted to P166,517,296 as at December 31, 2019. Accumulated depreciation and amortization of right-of-use assets amounted to P5,286,478 as at December 31, 2019 (Note 14).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives, such as mining rights and computer software and licenses, amounted to P1,808,264 and P1,778,858 as at December 31, 2019 and 2018, respectively. Accumulated amortization of computer software and licenses amounted to P265,048 and P259,588 as at December 31, 2019 and 2018, respectively (Note 16). The amortization of mining rights will commence upon commercial operations.

Intangible assets with indefinite useful life amounted to P69,953,222 as at December 31, 2019 and 2018 (Notes 5 and 16).

Estimated Useful Lives of Intangible Assets - Power Concession Right. The Group estimates the useful life of power concession right based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as at the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The carrying amount of power concession right amounted to P1,009,785 and P881,283 as at December 31, 2019 and 2018, respectively (Notes 7 and 16).

Impairment of Goodwill with Indefinite Useful Life. The Group determines whether the goodwill acquired in a business combination is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of SMCGP Masin, SMCGP Transpower and SPHI (collectively referred to as Masinloc Group) has been determined based on the value in use using discounted cash flows. Assumptions used in the discounted cash flows include discount rate and terminal growth rate of 9.0% and 3.0%, respectively, in 2019 and 2018 (Notes 5 and 16).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

No impairment loss was recognized in 2019 and 2018 in relation to the goodwill arising from the acquisition of the Masinloc Group, which accounts for almost 100% of the goodwill in the consolidated statements of financial position as at December 31, 2019 and 2018.

The carrying amount of goodwill amounted to P69,953,222 as at December 31, 2019 and 2018 (Notes 5 and 16).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has determined that the acquisition of the Masinloc Group represents a business due to the presence of the integrated set of activities acquired while the acquisition of MPGC represents an asset acquisition since it does not meet the requirements of being a business as set out in PFRS 3.

The carrying amount of goodwill arising from business combinations amounted to P69,953,222 as at December 31, 2019, and 2018 (Notes 5 and 16).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted.

The Philippine Department of Energy (DOE) is the government agency authorized to implement Coal Operating Contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the 5-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable, and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines (Note 15).

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities remain in the preparatory stages as at December 31, 2019 and 2018. All related costs and expenses from mining activities are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as at December 31, 2019 and 2018.

Deferred exploration and development costs amounted to P710,836 and P705,458 as at December 31, 2019 and 2018, respectively (Note 15).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 28).

Deferred tax assets from temporary differences amounted to P1,128,754 and P1,137,565 as at December 31, 2019 and 2018, respectively (Note 28).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment amounted to P102,402 and P70,265 as at December 31, 2019 and 2018, respectively (Note 13).

The combined carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, deferred exploration and development costs and intangible assets with finite useful lives amounted to P331,390,973 and P327,829,991 as at December 31, 2019 and 2018, respectively (Notes 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 22 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P139,512 and P227,091 as at December 31, 2019 and 2018, respectively (Note 22).

ARO. The Group has ARO arising from power plants and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.572% to 12.640% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group's ARO, presented under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P578,398 and P287,075 as at December 31, 2019 and 2018, respectively.

5. Business Combination

On March 20, 2018, the Parent Company acquired 51% and 49% equity interests in SMCGP Masin from AES Phil Investment Pte. Ltd. ("AES Phil") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as "SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3; Units 1, 2 and 3 are collectively referred to as the "Masinloc Power Plant"), and the 10 MW battery energy storage system project (the "Masinloc BESS"), all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy is constructing a 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of the Group.

As part of the acquisition, the Parent Company also acquired SMCGP Transpower and SPHI. SMCGP Transpower was a subsidiary of The AES Corporation which provided corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provided energy marketing services to MPPCL. These services are currently being provided by the Parent Company to MPPCL.

With the acquisition by the Parent Company of the Masinloc Group (the "Transaction"), the Group aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for the Group to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction had resulted in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction in United States dollar (US\$) was US\$1,900,000 (equivalent to P98,990,000). The total consideration was paid in cash by the Parent Company using the proceeds of (a) US dollar-denominated long-term borrowings obtained from various financial institutions totaling to US\$1,200,000 and (b) the issuance of RPS and obtaining advances from SMC amounting to US\$650,000 and US\$150,000, respectively (Notes 20, 21 and 23).

The Transaction gave the Parent Company 100% ownership and control based on PFRS 3, and was consolidated effective March 20, 2018.

The Parent Company has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized provisional amounts of assets acquired and liabilities assumed at the acquisition date:

	2018
Assets	
Cash and cash equivalents	P1,656,243
Trade and other receivables	2,438,955
Inventories	2,378,065
Prepaid expenses and other current assets	1,691,735
Property, plant and equipment	62,274,180
Intangible assets	79,553
Other noncurrent assets	3,039,797
Liabilities	
Loans payable	(2,343,600)
Accounts payable and accrued expenses	(9,590,653)
Finance lease liabilities (including current portion)	(30,775)
Income tax payable	(139,445)
Long-term debt - net (including current maturities)	(31,951,895)
Deferred tax liabilities	(54,520)
Other noncurrent liabilities	(203,919)
Total Identifiable Net Assets Fair Value	P29,243,721

Final goodwill recognized as a result of acquisition follows:

	2018
Consideration transferred	P98,990,000
Non-controlling interest measured at proportionate interest in identifiable net assets	198,077
Total identifiable net assets	(29,243,721)
Goodwill	P69,944,356

The final amounts are same with the provisional fair values used in 2018.

Trade and Other Receivables. The fair value of trade and other receivables amounted to P2,438,955. The gross amount of trade and other receivables is P2,503,458, of which P64,503 is expected to be uncollectible as at the acquisition date (Note 9).

From the date of acquisition to December 31, 2018, the Masinloc Group has contributed P19,459,316 and P2,781,309 of revenues and net income, respectively, to the Group's results. For the year ended December 31, 2018, the consolidated revenues and net income of the Group would have been P124,949,444 and P8,508,703, respectively, had the Transaction been completed at the beginning of the reporting period.

Acquisition-related Costs

The Parent Company incurred acquisition-related costs of P52,191, P286,192 and P194,688 for the years ended December 31, 2019, 2018 and 2017, respectively, which have been included in the "Selling and administrative expenses" account in the consolidated statements of income.

Goodwill arising from the Transaction is attributable to the benefit of expected synergies, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

6. Segment Information

Operating Segments

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

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and remain in the preparatory stages of mining activities (Note 15).

Segment Assets and Liabilities

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

Inter-segment Transactions

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

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

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P62,795,380, P54,474,012 and P43,404,148 for the years ended December 31, 2019, 2018 and 2017, respectively, represents more than 10% of the Group's total revenues.

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

Operating Segments

Financial information about reportable segments follows:

For the Years Ended December 31																	
	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated	
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018
Revenues																	
External	P111,950,126	P101,294,837	P70,494,762	P23,095,136	P18,808,010	P12,295,813	P -	P -	P -	P14,817	P -	P -	P -	P -	P -	P135,060,079	P120,102,847
Inter-segment	22,816,768	19,056,846	14,258,684	248,030	197,729	98,501	-	-	-	732,061	656,388	309,330	(23,796,859)	(19,910,963)	(14,666,515)	-	-
	134,766,894	120,351,683	84,753,446	23,343,166	19,005,739	12,394,314	-	-	-	746,878	656,388	309,330	(23,796,859)	(19,910,963)	(14,666,515)	135,060,079	120,102,847
Costs and Expenses																	
Cost of power sold	95,089,427	83,744,243	57,089,457	21,406,492	17,285,808	11,694,501	-	-	-	17,988	69,647	-	(24,755,707)	(20,281,392)	(14,958,644)	91,758,200	80,818,306
Selling and administrative expenses	6,640,576	5,859,988	4,616,845	509,513	329,612	218,091	8,814	14,952	22,663	2,177,718	2,334,476	2,177,596	(1,988,427)	(2,428,818)	(2,346,214)	7,348,194	6,110,210
	101,730,003	89,604,231	61,706,302	21,916,005	17,615,420	11,912,592	8,814	14,952	22,663	2,195,706	2,404,123	2,177,596	(26,744,134)	(22,710,210)	(17,304,858)	99,106,394	86,928,516
Segment Result	33,036,891	30,747,452	23,047,144	1,427,161	1,390,319	481,722	(8,814)	(14,952)	(22,663)	(1,448,828)	(1,747,735)	(1,868,266)	2,947,275	2,799,247	2,638,343	35,953,685	33,174,331
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,585,459	661,212
Equity in net losses of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(391,054)	(471,236)
Interest expense and other financing charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,720,720)	(17,616,056)
Other income (charges) - net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,199,255	2,944,165
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,263,116)	(3,901,532)
Consolidated Net Income	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P14,363,509	P8,300,117

As at and For the Years Ended December 31												
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Other Information												
Segment assets	P396,965,856	P374,899,016	P9,738,510	P10,042,738	P729,077	P723,161	P77,913,941	P40,068,111	(P13,129,176)	(P17,782,705)	P472,218,208	P407,950,321
Investments and advances - net	9,965,329	10,056,639	206,173	187,823	-	-	225,919,162	199,115,545	(225,089,904)	(197,211,021)	11,000,760	12,148,986
Goodwill and other intangible assets - net	-	-	-	-	-	-	-	-	-	-	72,771,271	72,613,363
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	1,128,754	1,137,565
Consolidated Total Assets	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P557,118,993	P493,850,235
Segment liabilities	P176,866,267	P190,704,624	P7,821,056	P6,526,781	P817,667	P802,952	P5,612,127	P14,591,408	(P27,634,355)	(P29,989,516)	P163,482,762	P182,636,249
Long-term debt - net	-	-	-	-	-	-	-	-	-	-	226,799,041	206,965,260
Income tax payable	-	-	-	-	-	-	-	-	-	-	214,776	310,882
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	13,197,658	8,180,119
Consolidated Total Liabilities	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P403,694,237	P398,092,510
Capital expenditures	P8,164,696	P5,989,791	P -	P -	P -	P -	P1,952,791	P59,962	P -	P -	P10,117,487	P6,049,753
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	8,913,348	9,211,114	935,391	57,095	39	3,164	71,384	75,749	(2,506)	(6,887)	9,917,656	9,340,235
Noncash items other than depreciation and amortization	(2,684,309)	4,226,984	9,261	19,917	5	(7)	(955,997)	529,511	-	-	(3,631,040)	4,776,405

*Noncash items other than depreciation and amortization include unrealized foreign exchange losses/(gains), equity in net losses of associates and joint ventures, impairment losses on trade and other receivables, property, plant and equipment and others, retirement cost (benefit), and loss on retirement of property, plant and equipment.

7. Significant Agreements and Lease Commitments

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

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

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

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

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

- i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;
- ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;
- v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. maintain the performance bond in full force and effect with a qualified bank; and
- vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P26,417,124, P25,423,530 and P23,726,459 in 2019, 2018 and 2017, respectively (Note 25). SMEC and SPDC renewed their performance bonds amounting to US\$58,187 and US\$20,305, which will expire on November 3, 2020 and January 25, 2020, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2021.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 34).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P7,290,341, P8,320,739 and P9,074,226 in 2019, 2018 and 2017, respectively.

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

The future minimum lease payments as at December 31, 2018 are as follows:

	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$268,064	P14,094,815	P12,835,994	P26,930,809
More than 1 year and not later than 5 years	1,053,631	55,399,904	50,478,061	105,877,965
Later than 5 years	360,158	18,937,118	17,275,304	36,212,422
	1,681,853	88,431,837	80,589,359	169,021,196
Less: Future finance charges on lease liabilities	184,939	9,724,085	17,381,029	27,105,114
Present values of lease liabilities	US\$1,496,914	P78,707,752	P63,208,330	P141,916,082

The present values of minimum lease payments as at December 31, 2018 are as follows:

2018	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US\$216,662	P11,392,106	P8,198,471	P19,590,577
More than 1 year and not later than 5 years	938,838	49,364,101	39,688,606	89,052,707
Later than 5 years	341,414	17,951,545	15,321,253	33,272,798
	US\$1,496,914	P78,707,752	P63,208,330	P141,916,082

b. Land Lease Agreement with PSALM

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

In August 2019, Alpha Water acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P15,653 (Note 13).

The lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P3,311 and P66,511 in 2019 and 2018, respectively.

Upon adoption of PFRS 16, adjustment pertaining to MPPCL's land under lease arrangement amounted to P127,077 as at January 1, 2019. MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position, amounted to P108,147 as at December 31, 2019 (Note 14).

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

Future minimum lease payments under lease arrangement with the present value of future minimum lease payments as at December 31, 2018 follow:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than 1 year	P69,145	P69,068
More than 1 year and not later than 5 years	15,282	12,077
Later than 5 years	16,385	9,834
	100,812	90,979
Less: Future finance charges on finance lease liabilities	9,833	-
Present values of finance lease liabilities	P90,979	P90,979

c. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL each entered into separate MPAs with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL, recognized under "Plant operations and maintenance, and other fees" account in the consolidated statements of income, amounted to P205,868, P325,188 and P146,550 in 2019, 2018 and 2017, respectively (Note 25).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

d. Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party RES and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P21,434,786, P11,181,239, P10,725,490 in 2019, 2018 and 2017, respectively (Note 25).

Revenues from retail sales to contestable customers amounted to P19,630,929, P15,703,941 and P9,504,126 in 2019, 2018 and 2017, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

e. Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)

On December 6, 2012, SPDC entered into a 5-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA, i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. The MOA was extended up to March 25, 2020.

Revenue from sale of capacity of the San Roque Power Plant amounted to P651,580, P412,595 and P944,139 in 2019, 2018 and 2017, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

f. Ancillary Service Procurement Agreement (ASPA)

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of 5 years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

Revenue from ancillary services of MPPCL amounted to P354,728 and P191,176 in 2019 and 2018, respectively, and was recognized as part of "Revenues" account in the consolidated statements of income (Note 24).

g. Coal Supply Agreements

SMEC, SMCP, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

h. Distribution Wheeling Service (DWS) Agreements

As Retail Electricity Supplier (RES), SMELC, SCPC and MPPCL each entered into DWS Agreements with certain Distribution Utilities (DUs) for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to the contestable customers who have opted for a single billing arrangement as provided in the ERC Supplemental Switching Rules.

i. Lease Agreements

Group as Lessee

Information about significant leases for which the Group is a lessee that qualifies under PFRS 16 are as follows:

- i. The Parent Company has lease agreements for the use of office spaces with San Miguel Properties, Inc., an entity under common control, and an external party for a period of 1 to 5 years which is renewable upon agreement between the parties.

- ii. In November 2015, SCPC leased parcels of land from New Ventures Realty Corporation (NVRC), an entity under common control, for its Phase I Limay Greenfield Power Plant and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing annual escalation adjustments of rental rates starting on certain anniversary dates.
- iii. On December 7, 2015, LETI leased a parcel of land from NVRC for its Phase II Limay Greenfield Power Plant for a period of 25 years from the effective date with an option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution. The lease agreement was assigned to SCPC pursuant to the sale of the Phase II Limay Greenfield Power Plant on June 22, 2017.
- iv. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Amortization of right-of-use assets and rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P532 and P517 as at December 31, 2019 and 2018, respectively (Note 15).
- v. In 2016, the SMCPD entered into an agreement with Kyron Landholdings Inc., an entity under common control, for the sub-lease of a parcel of land for its Davao Greenfield Power Plant. The initial term of the lease is for a period of 25 years with the option to renew further for 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.
- vi. On December 13, 2017, SCPC leased a foreshore area aggregating to 465,967 square meters from the Department of Environment and Natural Resources (DENR) for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.
- vii. On March 7, 2017, SCPC leased a parcel of land with approximate area of 66,000 square meters from PNOG Alternative Fuels Corporation for the construction of auxiliary facilities of the Limay Greenfield Power Plant. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase the annual rental by 3% and every 5 years, the amount equivalent to 5% of the re-appraised value shall be the new rental rate.
- viii. On October 3, 2018, SMCPD leased a foreshore area aggregating to 68,779 square meters from the DENR for its pier and jetty facility. The lease is for a period of 25 years with an option to renew for another 25 years. The agreement contains a clause to increase annual rental based on appraised value of land and improvements every 10 years.
- ix. On December 5, 2019, MPGD leased a total of 1,654,400 square meters from E-Fare Investment Holdings Inc., an entity under common control, for a period of 24.5 years from the effective date with an option to renew this lease for another 25 years. The agreement contains a clause to increase annual rental by 5% starting from the first anniversary of the effective date.

Related right-of-use assets from these lease arrangements are disclosed in Note 14.

The Group also entered into various lease agreements that did not qualify under PFRS 16 for the recognition of right-of-use assets and lease liabilities due to the lease being short-term in nature.

SMEC has a lease agreement with Challenger Aero Air Corporation, an entity under common control, for the lease of aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016. The lease agreement expired on December 31, 2019. This does not qualify under PFRS 16 due to short-term in nature.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under "Trade and other receivables - net" or "Prepaid expenses and other current assets" accounts in the consolidated statements of financial position (Notes 9 and 11).

Maturity analysis of lease payments are disclosed in Note 31.

Non-cancellable operating lease rentals as at December 31, 2018 are payable as follows:

	2018
Not later than 1 year	P122,709
More than 1 year and not later than 5 years	418,987
Later than 5 years	2,457,247
	<u>P2,998,943</u>

Interest expense recognized in the consolidated statements of income amounted to P107,389 in 2019.

Rent expense recognized in the consolidated statements of income amounted to P323,372, P356,606 and P376,499 in 2019, 2018 and 2017, respectively (Notes 4 and 26).

Total cash outflows amounted to P400,328 in 2019.

Group as Lessor

In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. This agreement was subsequently amended, reducing the leased area to 340,646 square meters effective October 1, 2013. This was further amended reducing the leased area to 130,980 square meters and with a corresponding reduction in the monthly rental effective on December 1, 2016. On June 20, 2017, NVRC assigned its leasehold rights to Petron.

There are no restrictions imposed on these lease agreements such as those concerning dividends, additional debt and further leasing.

Future minimum lease receivables under the non-cancellable lease agreements are as follows:

Operating Lease Under PFRS 16	2019
Not later than 1 year	P6,564
One to two years	2,768
	P9,332
<hr/>	
Operating lease under PAS 17	2018
Not later than 1 year	P6,373
More than 1 year and not later than 5 years	9,332
	P15,705

Rent income recognized under "Other income (charges)" account in the consolidated statements of income amounted to P12,274, P6,170 and P10,686 in 2019, 2018 and 2017, respectively (Notes 4 and 27).

j. Concession Agreement

The Parent Company entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 28, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

- i. as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement and (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fee);
- ii. if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529;
- iii. on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and
- iv. at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P856,028 and P649,631 as at December 31, 2019 and 2018, respectively. Interest expense on concession payable, included as part of "Interest expense and other financing charges" account in the consolidated statements of income, amounted to P5,700, P5,851 and P5,993 in 2019, 2018 and 2017, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P48,320, P40,813 and P30,426 in 2019, 2018 and 2017, respectively (Note 25).

Maturities of the carrying amount of concession payable are as follows:

	2019	2018
Not later than 1 year	P2,859	P2,700
More than 1 year and not later than 5 years	13,227	12,490
Later than 5 years	80,884	84,480
	P96,970	P99,670

Power concession assets consist of:

	Concession Rights	Completed Projects/Others	Asset Under Construction (Contract Asset)	Total
Cost				
January 1, 2018	P384,317	P346,965	P162,454	P893,736
Additions	-	105,067	35,145	140,212
Reclassification	-	144,481	(144,481)	-
December 31, 2018	384,317	596,513	53,118	1,033,948
Additions	-	206,397	-	206,397
December 31, 2019	384,317	802,910	53,118	1,240,345
Accumulated Amortization				
January 1, 2018	P58,930	32,462	-	91,392
Amortization	15,372	25,441	-	40,813
December 31, 2018	74,302	57,903	-	132,205
Amortization	15,372	32,948	-	48,320
December 31, 2019	89,674	90,851	-	180,525
Accumulated Impairment Losses				
January 1, 2018 and December 31, 2018	-	20,460	-	20,460
Impairment	-	29,575	-	29,575
December 31, 2019	-	50,035	-	50,035
Carrying Amount				
December 31, 2018	P310,015	P518,150	P53,118	P881,283
December 31, 2019	P294,643	P662,024	P53,118	P1,009,785

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PFRS 15 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P206,397, P140,212 and P123,336 in 2019, 2018 and 2017, respectively (Note 27).

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2019	2018
Cash in banks and on hand		P38,249,680	P8,733,340
Short-term investments		41,704,507	19,778,522
	4, 31, 32	P79,954,187	P28,511,862

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P1,563,704, P626,195 and P374,509 in 2019, 2018 and 2017, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2019	2018
Trade		P21,637,478	P21,402,654
Non-trade		9,269,808	8,055,865
Amounts owed by related parties	7, 12, 21	1,910,647	6,162,590
		32,817,933	35,621,109
Less allowance for impairment losses	4	2,828,484	2,574,423
	4, 31, 32	P29,989,449	P33,046,686

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

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

	2019	2018
Balance at beginning of year	P2,574,423	P2,451,818
Impairment losses during the year	257,879	135,426
Acquisition of subsidiaries	-	64,503
Cumulative translation adjustment and others	(3,818)	(77,324)
Balance at end of year	P2,828,484	P2,574,423

Impairment losses recognized in the consolidated statements of income under "Selling and administrative expenses" account amounted to P257,879, P135,426 in 2019 and 2018, respectively (Note 26). No impairment loss on trade and other receivables was recognized in 2017.

Non-trade receivables include the following:

- Due from PSALM amounting to US\$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM on September 4, 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court ("RTC") of Mandaluyong City (Note 34).

- b. As at December 31, 2019 and 2018, SMEC has receivables for the cost of fuel, market fees and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P519,275 and P51,937, respectively. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P2,602,778 and P2,104,840 as at December 31, 2019 and 2018, respectively. The issue on excess capacity is the subject of ongoing cases (Note 34).
- c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit), with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.
- On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding amount due to SMEC. For the years ended December 31, 2019 and 2018, no payment was received from HCML and Caason. As at December 31, 2019 and 2018, total outstanding receivable from HCML amounting to P421,784 has been fully provided with allowance.
- d. Advances made by SCPC for the construction of transmission assets on behalf of NGCP. The reimbursement shall take place after full payment and proper turnover of the transmission assets to NGCP.
- e. The remaining balance mainly pertains to receivables from customers which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	2019	2018
Coal	7	P3,501,675	P4,436,348
Materials and supplies		1,363,241	687,336
Fuel oil	21	152,571	118,308
Other consumables		67,936	52,639
	4	P5,085,423	P5,294,631

There were no inventory write-downs to net realizable value for the years ended December 31, 2019, 2018 and 2017. Inventories charged to cost of power sold amounted to P31,362,501, P32,563,689 and P13,039,144 in 2019, 2018 and 2017, respectively (Note 25).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2019	2018
Input VAT		P12,409,870	P13,151,775
Prepaid tax		7,497,760	5,767,602
Restricted cash	17	1,786,229	1,045,598
Derivative assets not designated as cash flow hedge	31, 32	676	96,203
Investment in debt instruments		-	54,009
Prepaid rent and others	7, 21	1,895,090	1,646,529
		P23,589,625	P21,761,716

Input VAT consists of VAT on purchases of goods and services which can be offset against the output VAT payable (Note 19).

Prepaid tax consists of creditable withholding taxes and excess tax credits which can be used as a deduction against future income tax payable.

Restricted cash pertains to the Cash Flow Waterfall accounts of SCPC, SMCPCL and MPPCL, maintained with a local Trust Company as required in its respective credit facilities as at December 31, 2019 and 2018, respectively (Note 20).

The methods and assumptions used to estimate the fair values of restricted cash and derivative assets not designated as cash flow hedge are discussed in Note 32.

Prepaid rent and others pertain to the following:

- Prepaid rent of the Group from various short-term lease agreements amounted to P24,526 and P33,165 as at December 31, 2019 and 2018, respectively (Note 7).
- PSALM monthly fee outage credits of SMEC, for the approved reduction in its future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2019 and 2018, amounted to P886,496 and P299,757 as at December 31, 2019 and 2018, respectively.
- The Parent Company's prepaid legal and financial advisory fees relating to its financing activities.

12. Investments and Advances

Investments and advances consist of:

	2019	2018
Investments in Shares of Stock of Associates and Joint Ventures		
Cost		
Balance at beginning of year	P8,583,462	P8,583,462
Reclassification to investment in shares of stock of subsidiaries	(964,570)	-
Balance at end of year	7,618,892	8,583,462
Accumulated Equity in Net Losses		
Balance at beginning of year	1,397,589	927,355
Equity in net losses during the year	392,355	442,262
Share in other comprehensive loss (income) during the year	517	(1,395)
Adjustment to share in other comprehensive income in prior year	-	393
Adjustment to equity in net losses in prior year	(1,301)	28,974
Reclassification to investment in shares of stock of subsidiaries	(10,491)	-
Balance at end of year	1,778,669	1,397,589
	5,840,223	7,185,873
Advances	5,160,537	4,963,113
	P11,000,760	P12,148,986

Advances pertain to deposits made to certain land holding companies which will be applied to future stock subscriptions. In 2018, SMC bought ownership interests in certain land holding companies. Consequently, the related deposits to the said land holding companies amounting to P4,472,785 as at December 31, 2018, were reclassified to "Amounts owed by related parties" account and subsequently collected in 2019 (Notes 9 and 21).

The following are the developments relating to the Group's investments in shares of stock of associates and joint ventures:

a. Investment in shares of stock of associates

i. OEDC

In April 2013, SPGC and San Miguel Equity Investments, Inc. (SMEI), an entity under common control, entered into a Deed of Assignment of Subscription Rights whereby SMEI agreed to assign 35% ownership interest in OEDC to SPGC for a consideration of P8,750.

Subscriptions payable amounted to P28,101 as at December 31, 2019 and 2018 (Note 21).

ii. MPGC

On January 25, 2019, the Parent Company subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing the Parent Company's ownership interest in MPGC from 49% to 73.58%. The Parent Company then subscribed to an additional 58,000,000 common shares out of the proposed increase in the authorized capital stock of MPGC at the subscription price of P100 per share, or total subscription amount of P5,800,000 on September 6, 2019, when the increase of the authorized capital stock of MPGC was approved by the Philippine SEC on the same date.

As at December 31, 2019, the Parent Company paid P6,530,057 of the total subscriptions. The additional capital infusion will finance in part the power plant project of MPGC.

Following these several investments and change in ownership interest in MPGC from 49% in 2018 to 89.54% in 2019, the Parent Company has obtained control over MPGC and has started consolidating MPGC as at January 25, 2019. This resulted in a reclassification of investment in an associate amounting to P954,079 to investment in shares of stock of subsidiaries.

Non-controlling interests pertains to the remaining interests held by Meralco PowerGen Corporation (10.05%) and by Zygnnet Prime Holdings, Inc. (0.41%) in MPGC as at December 31, 2019.

The acquisition of MPGC is accounted for as an asset acquisition since the acquired set of assets and activities does not constitute a business as defined in PFRS 3.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

The table below summarizes the financial information of investment in shares of stock of associates which is accounted for using the equity method:

December 31, 2019 (Unaudited)

Country of Incorporation	OEDC
	Philippines
Current assets	P574,039
Noncurrent assets	1,264,889
Current liabilities	(711,622)
Noncurrent liabilities	(577,416)
Net assets	P549,890
Revenue	P1,608,436
Net income	P50,187
Other comprehensive loss	(1,478)
Total comprehensive income	P48,709
Share in net income	P17,565
Share in other comprehensive loss	(P517)
Carrying amount of investment	P206,172

December 31, 2018 (Audited)

	OEDC	MPGC
Country of Incorporation	Philippines	Philippines
Current assets	P314,130	P17,646
Noncurrent assets	1,211,646	1,961,419
Current liabilities	(370,926)	(32,074)
Noncurrent liabilities	(653,668)	-
Net assets	P501,182	P1,946,991
Revenue	P1,399,872	P -
Net income	P26,981	P739
Other comprehensive income	3,986	-
Total comprehensive income	P30,967	P739
Share in net income	P9,443	P362
Share in other comprehensive income	P1,395	P -
Carrying amount of investment	P189,124	P954,079

b. Investments in shares of stock of joint ventures

i. AHC and KWPP

The Parent Company, through PVEI, and Korea Water Resources Corporation (K-water) entered into a joint venture for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-water, 2,817,270 shares or 60% of the outstanding capital stock of AHC and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock.

Subsequently, AHC and KWPP each issued shares in favor of nominee directors of PVEI and K-water to complete their respective shareholding interest.

In accordance with the entry of PVEI into AHC and KWPP, K-water and PVEI are jointly in control of the management and operation of AHC and KWPP.

AHC

AHC was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the EPIRA.

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2019 (Audited)

Country of Incorporation	AHC	KWPP
	Philippines	Philippines
Current assets	P2,625,414	P2,347
Noncurrent assets	17,538,918	19,327
Current liabilities	(1,274,135)	(5,418)
Noncurrent liabilities	(11,670,214)	(15,157)
Net assets	P7,219,983	P1,099
Revenue	P1,586,882	P -
Net losses/total comprehensive losses	(P683,140)	(P60)
Share in net losses/total comprehensive losses	(P409,884)	(P36)
Carrying amount of investment	P5,633,167	P884

December 31, 2018 (Audited)

Country of Incorporation	AHC	KWPP
	Philippines	Philippines
Current assets	P2,670,336	P1,959
Noncurrent assets	18,262,547	19,800
Current liabilities	(1,023,848)	(5,047)
Noncurrent liabilities	(12,005,911)	(15,554)
Net assets	P7,903,124	P1,158
Revenue	P1,575,268	P -
Net income (losses)/total comprehensive income (losses)	(P751,294)	P15
Share in net income (losses)/total comprehensive income (losses)	(P450,777)	P9
Carrying amount of investment	P6,043,051	P920

Investment in Shares of Stock of Subsidiaries

The following are the developments relating to the subsidiaries:

i. SCPC

In 2013, SCPC started the construction of its Phase I Limay Greenfield Power Plant (comprising of Units 1 and 2).

On June 22, 2017, SCPC acquired the Phase II Limay Greenfield Power Plant (comprising of Units 3 and 4) from LETI. Units 1, 2, 3 and 4 were successfully synchronized to the Luzon Grid in November 2016, May 2017, November 2017 and October 2018, respectively.

Commercial operations of Units 1, 2, 3 and 4 commenced on May 26, 2017, September 26, 2017, March 26, 2018 and July 26, 2019, respectively, following the completion of the testing and commissioning phase and the issuance of a Provisional Authority to Operate (PAO) and a Certificate of Compliance by the ERC in favor of SCPC for its 4 units.

ii. SMCP

In 2013, SMCP started the construction of its Davao Greenfield Power Plant. Units 1 and 2 were successfully synchronized to the Mindanao Grid in May 2016 and February 2017, respectively.

Units 1 and 2 started commercial operations on July 26, 2017 and February 26, 2018, respectively, following the completion of its testing and commissioning phase and the issuance of a PAO and a Certificate of Compliance by the ERC in favor of SMCP for its 2 units.

iii. PVEI

In January 2017, PVEI granted shareholder advances amounting to US\$31,800 (equivalent to P1,578,870) to its joint venture company, AHC. The advances bear an annual interest rate of 4.50% and are due on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

As at December 31, 2019 and 2018, the remaining balance of the shareholder advances amounted to US\$2,281 (equivalent to P115,509) and payment was extended to December 31, 2020.

iv. PEGC

On July 13, 2018, PEGC, a wholly-owned subsidiary of the Parent Company, acquired the entire equity interest of ALCO Steam Energy Corporation ("ALCO") in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total consideration of US\$9,950 (equivalent to P532,425). MPPCL owns the 40% equity interests in Alpha Water.

Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant Complex in Zambales Province is located.

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost							
January 1, 2018		P250,544,937	P3,953,878	P681,983	P41,657	P38,515,764	P293,738,219
Acquisition of subsidiaries	5	35,253,504	878,145	1,759,579	899,543	23,483,409	62,274,180
Additions		46,237	41,018	116,445	21,708	5,824,345	6,049,753
Reclassifications/Retirements		28,549,042	1,272,794	103,559	514,958	(28,694,240)	1,746,113
Currency translation adjustments		408,114	9,539	21,294	9,253	183,315	631,515
December 31, 2018 (Audited)		314,801,834	6,155,374	2,682,860	1,487,119	39,312,593	364,439,780
Adjustments due to adoption of PFRS 16	3, 14	(214,342,544)	(127,682)	-	1,285	-	(214,468,941)
December 31, 2018 (as adjusted)		100,459,290	6,027,692	2,682,860	1,488,404	39,312,593	149,970,839
Additions		233,741	1,936,527	151,892	36,888	7,758,439	10,117,487
Reclassifications/Disposals		6,464,182	3,996,250	184,118	254,517	(8,612,138)	2,286,929
Currency translation adjustments		(1,797,767)	(27,912)	(92,459)	(36,607)	(1,043,641)	(2,998,386)
December 31, 2019		105,359,446	11,932,557	2,926,411	1,743,202	37,415,253	159,376,869
Accumulated Depreciation and Amortization							
January 1, 2018		42,378,811	86,325	302,123	9,653	-	42,776,912
Depreciation and amortization		8,769,755	98,339	288,548	37,761	-	9,194,403
Reclassifications/Retirements		(7,591)	(33,357)	(9,022)	6	-	(49,964)
Currency translation adjustments		125,967	1,031	5,440	320	-	132,758
December 31, 2018 (Audited)		51,266,942	152,338	587,089	47,740	-	52,054,109
Adjustments due to adoption of PFRS 16	3, 14	(46,938,033)	(24)	-	118	-	(46,937,939)
December 31, 2018 (as adjusted)		4,328,909	152,314	587,089	47,858	-	5,116,170
Depreciation and amortization		4,261,418	117,065	142,049	66,756	-	4,587,288
Reclassifications/Retirements		175,935	-	(158,048)	-	-	17,887
Currency translation adjustments		(735,867)	(17)	(50,767)	(4,259)	-	(790,910)
December 31, 2019		8,030,395	269,362	520,323	110,355	-	8,930,435
Accumulated Impairment Losses							
January 1, 2018		-	-	-	-	-	-
Impairment		-	-	70,265	-	-	70,265
December 31, 2018 (Audited)		-	-	70,265	-	-	70,265
Impairment		-	-	35,084	-	-	35,084
Currency translation adjustments		-	-	(2,947)	-	-	(2,947)
December 31, 2019		-	-	102,402	-	-	102,402
Carrying Amount							
December 31, 2018		P263,534,892	P6,003,036	P2,025,506	P1,439,379	P39,312,593	P312,315,406
December 31, 2019		P97,329,051	P11,663,195	P2,303,686	P1,632,847	P37,415,253	P150,344,032

- a. The carrying amounts of power plants and land, classified as finance lease under PAS 17, amounted to P167,387,089 and P127,077, respectively, as at December 31, 2018 (Note 7). Upon adoption of PFRS 16, these were reclassified to "Right-of-use assets - net" account as at January 1, 2019 (Note 14).
- b. The capitalized asset retirement costs, net of accumulated depreciation, amounted to P201,830 as at December 31, 2018 (Note 7). Upon adoption of PFRS 16, these were reclassified to "Right-of-use assets - net" account as at January 1, 2019 (Note 14).
- c. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.
- d. Capital projects in progress pertains to the following:
 - i. Project of SMCPG for the construction of the Davao Greenfield Power Plant.

Following the completion of Unit 1 and Unit 2 and the ERC grant of a PAO in favor of SMCPG for the 2 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.
 - ii. Projects of SCPC for the construction of Phases I and II Limay Greenfield Power Plant.

Following the completion of Unit 1, Unit 2, Unit 3 and Unit 4 and the ERC grant of a PAO and a Certificate of Compliance in favor of SCPC for the 4 units, all related CPIP costs were reclassified to the appropriate property, plant and equipment account.

The Unit 4 started its commercial operations on July 26, 2019.
 - iii. Plant optimization and pumped-storage hydropower projects of SPDC.
 - iv. Expenditures for the 500 kilovolts connection facilities in relation to the 600 MW Pagbilao power plant project of CLPPC.
 - v. Ongoing construction of the Unit 3, Masinloc Power Plant of MPPCL and the 2 x 20 MW battery energy storage facility of SMCGP Philippines Energy.
 - vi. Expenditures of MPGC related to the development of its power plant project to be constructed in Mariveles, Bataan.
 - vii. Project of SMEC for the installation of roller press and rotary separators of the Sual Power Plant.
 - viii. Project of SPPC for the combined cycle expansion of the Ilijan Power Plant.
- e. Depreciation and amortization related to property, plant and equipment are recognized in the consolidated statements of income as follows:

	Note	2019	2018	2017
Cost of power sold	25	P4,363,897	P9,068,086	P5,811,941
Selling and administrative expenses	26	223,391	126,317	142,533
		P4,587,288	P9,194,403	P5,954,474

Total depreciation and amortization recognized in the consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P99,307, P93,670 and P22,451 in 2019, 2018 and 2017, respectively. The Group recognized impairment losses amounting to P35,084, P70,265 in 2019, 2018, respectively, and presented as part of "Other income (charges) - net" account in the consolidated statements of comprehensive income (Note 27).

The Group has borrowing costs amounting to P2,360,582, P1,830,949 and P1,362,871 which were capitalized in 2019, 2018 and 2017, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.28% to 9.09% and 3.50% to 7.39% in 2019 and 2018, respectively. The unamortized capitalized borrowing costs amounted to P5,990,728 and P2,906,057 as at December 31, 2019 and 2018, respectively (Notes 18 and 20)

14. Right-of-use Assets

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

	<i>Note</i>	Land	Buildings and Improvements	Power Plants	Total
Cost					
Adjustment due to adoption of PFRS 16	3	P1,347,957	P80,650	P167,387,089	P168,815,696
Additions		2,997,209	9,800	-	3,007,009
Reclassifications		(14,230)	-	-	(14,230)
Currency translation adjustments		(4,701)	-	-	(4,701)
December 31, 2019		4,326,235	90,450	167,387,089	171,803,774
Accumulated Depreciation and Amortization					
Additions	25, 26	52,189	36,713	5,186,403	5,275,305
Reclassifications		11,173	-	-	11,173
December 31, 2019		63,362	36,713	5,186,403	5,286,478
Carrying Amount					
December 31, 2019		P4,262,873	P53,737	P162,200,686	P166,517,296

The carrying amounts of the IPPAs' power plants and MPPCL's land under lease arrangements amounted to P162,200,686 and P108,146, respectively, as at December 31, 2019 (Note 7).

The combined asset retirement costs of SCPC and SMCP amounted to P461,741 as at December 31, 2019. In 2019, total adjustments due to remeasurements made on asset retirement costs amounted to P81,055.

15. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	<i>Note</i>	2019	2018
Balance at beginning of year		P705,458	P699,001
Additions		4,479	6,457
Reclassification	7	532	-
Adjustment due to adoption of PFRS 16	3	367	-
Balance at end of year	4	P710,836	P705,458

Deferred exploration and development costs comprise of expenditures which are directly attributable to the mining activities of DAMI, SEPC and BERI in relation to their respective COCs.

In 2010, SMEC acquired DAMI, SEPC and BERI resulting in the recognition of mining rights of P1,719,726 (Notes 4 and 16).

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68.30 million metric tons as at December 31, 2019 and 2018.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As at December 31, 2019 and 2018, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35.01 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 23.45 million metric tons as at December 31, 2019 and 2018.

Status of Operations

In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new 5-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new 5-year WPB which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring, instead of considering another moratorium extension, the submission of a 5-year WPB which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a 10-year extension of its COC No. 138 prior to its expiration on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a 5-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new 5-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first 2 years of the 5-year WPB submitted by DAMI, SEPC and BERI, focuses on the “removal of tension cracked materials to prevent landslide” within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

- a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;
- b. The mining method is “contour stripping and progressive rehabilitation” and not the banned “open-pit mining”;
- c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and
- d. The ban could be lifted as a result of court cases filed against it.

On March 2, 2019, DAMI, SEPC and BERI requested DOE for the consolidation of the 3 COCs for the following justifications:

- a. The coal seams, although of varying thickness are continuous from one COC to another and deal for interconnected contour strip mining due to nearly horizontal deposition;
- b. Sulfur content vary over a wide range from less than 1 percent in the lower section of the thick seam in DAMI to over 4 percent in the Maitum blocks of BERI, and would require blending of the coal products from one COC to another in order to meet the acceptable market specification; and
- c. The coal resources and reserves vary greatly from one COC to another as the thickness and depth of the coal seams are variable, thus requiring stringent mine planning, operational efficiency and economic feasibility considerations.

However, on May 15, 2019, DAMI, SEPC and BERI clarified to the DOE that their request for consolidation of the 3 COCs was not meant to abandon nor withdraw the extension request of SEPC applied on September 21, 2018, having in mind the vested right provision of Section 21 of RA No. 11038 or the “Expanded National Integrated Protected Areas System Act of 2018”. Thus, DAMI, SEPC and BERI altogether declared that it is seeking for:

- a. The extension of COC of SEPC; and
- b. The consolidation of COC No. 126 and COC No.138 of DAMI and BERI, respectively, based on the justification set forth in the March 2, 2019 letter.

On November 20, 2019, the DOE informed DAMI and BERI that the request for consolidation of COC No. 126 and COC No. 138 is in the process of evaluation of the proposed consolidated 5-year WPB.

On January 10, 2020, DAMI and BERI met with the Energy Resources Development Bureau representatives to discuss the proposed consolidated 5-year WPB and the documentary requirements to effect consolidation of the 2 COCs. As of March 9, 2020, DAMI and BERI are finalizing the documents for submission to DOE to facilitate the process of consolidation which is expected to be favorably considered and approved by the DOE.

On December 11, 2019, the DOE approved the 10-year extension and the initial 5-year WPB for COC No. 134 of SEPC.

As at December 31, 2019, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of its commercial operations.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as at December 31, 2019 and 2018.

16. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	Note	2019	2018
Goodwill	4, 5	P69,953,222	P69,953,222
Mining rights	4, 15	1,719,726	1,719,726
Power concession assets - net	4, 7	1,009,785	881,283
Computer software and licenses - net		88,538	59,132
		P72,771,271	P72,613,363

Goodwill

In November 2009 and March 2010, the Parent Company acquired 60% ownership interest in SMEC and SPDC, respectively. As a result of these transactions, the Parent Company recognized goodwill amounting to P8,349 and P517, respectively.

In March 2018, the Parent Company acquired ownership interest in the Masinloc Group. As a result of this transaction, the Parent Company recognized goodwill amounting to P69,944,356 (Note 5).

Impairment of Goodwill from Masinloc Group

Goodwill arising from the acquisition of Masinloc Group, which accounts for almost 100% of the total goodwill in the consolidated statements of financial position as at December 31, 2019 and 2018, is allocated to the cash generating unit of the Masinloc Group.

The recoverable amount of goodwill has been determined based on the value in use using discounted cash flows and was based on the following key assumptions:

- Cash flows were projected based on experience and actual operating results and covers forecast until 2024 in 2019 and 2045 in 2018 based on long range plans approved by management. Management believes that the forecast was justifiable due to long-term contracts with major customers. Cash flows beyond the forecasted period are extrapolated using a constant growth rate determined per cash-generating unit.
- A discount rate of 9.0% in 2019 and 2018 was applied based on the weighted-average cost of capital, which reflects the management's estimate of the risk specific to the cash-generating unit.
- Terminal growth rate of 3.0% in 2019 and 2018 was applied as the Group is in the process of increasing its capacity and upgrading its facilities and hence foresees growth in cash flows generated perpetually. This growth rate is consistent with the long-term average growth rate for the industry.

The values assigned to the key assumptions represent the management's assessment of future trends in the industry and are based on internal sources (historical data).

For purposes of discount rate sensitivity, discount rate scenarios of 8.5% and 9.5% in 2019 are applied on the discounted cash flows analysis. Management believes that any reasonably possible change in the discount rate on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC, SPDC and the Masinloc Group for which the goodwill was attributed still exceeds its carrying amount as at December 31, 2019 and 2018.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

	Note	2019	2018
Cost			
Balance at beginning of year		P318,720	P238,509
Reclassifications	13	33,498	-
Additions		5,070	-
Acquisition of subsidiaries	5	-	79,553
Cumulative translation adjustments		(3,702)	658
Balance at end of year		353,586	318,720
Accumulated Amortization			
Balance at beginning of year		259,588	154,849
Amortization	26	6,743	105,019
Cumulative translation adjustments		(1,283)	(280)
Balance at end of year		265,048	259,588
		P88,538	P59,132

17. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2019	2018
Advances to suppliers and contractors		P9,178,586	P188,246
Restricted cash - net of current portion		5,553,528	4,442,553
Deferred input VAT - net of current portion		795,448	1,251,619
Noncurrent receivables		240,727	94,908
Amount owed by a related party	21	175,995	170,390
Derivative assets designated as cash flow hedge	31, 32	75,518	163,630
Other assets		7,558	3,216
	31, 32	P16,027,360	P6,314,562

Advances to suppliers and contractors include advance payments to contractors for the construction of the Group's power plant projects (Note 13).

Restricted cash comprises of: (a) SCPC's Cash Flow Waterfall accounts, amounting to P1,130,680 and P1,448,074 as at December 31, 2019 and 2018, respectively (Notes 11 and 20); (b) MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its credit facilities, totaling to P3,773,031 and P2,248,527 as at December 31, 2019 and 2018, respectively; (c) the amount received from IEMOP amounting to P491,242 as at December 31, 2019 and 2018, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 34); and (d) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for bill deposits which are refundable amounting to P158,540 and P254,690 as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the deferred input VAT mainly pertains to the input VAT relating to the construction of the power plants of the Group.

Amount owed by a related party pertains to the loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 21).

The methods and assumptions used to estimate the fair values of restricted cash, noncurrent receivables and derivative assets are discussed in Note 32.

18. Loans Payable

	Note	2019	2018
MPPCL		P2,278,575	P2,366,100
Parent Company		-	6,309,600
	31, 32	P2,278,575	P8,675,700

Loans payable mainly represent unsecured short-term US dollar-denominated amounts obtained from various local banks. Interest rates ranged from 3.64% to 4.30% and 3.61% to 4.10% in 2019 and 2018, respectively.

Interest expense on loans payable amounted to P180,975 and P216,394, inclusive of P15,957 capitalized in CIP in 2018, for the years ended December 31, 2019 and 2018, respectively (Note 13).

On April 29, 2019, the Parent Company fully paid its US\$120,000 short-term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance (Note 20). On August 17, 2018, SMCPD fully paid its P5,930,000 loans payable using the proceeds of its P21,300,000 term loan (Note 20).

19. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	2019	2018
Trade	7	P16,577,635	P14,967,636
Non-trade	7	9,364,145	7,248,252
Output VAT		7,210,413	6,855,666
Accrued interest	7, 18, 20	1,338,520	1,031,474
Amounts owed to related parties	21	523,317	586,606
Withholding and other accrued taxes		323,355	366,172
Premium on option liabilities	32	46,871	50,349
Derivative liabilities not designated as cash flow hedge	32	18,636	983
Retirement benefit liability	22	-	2,779
	31, 32	P35,402,892	P31,109,917

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

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

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

The methods and assumptions used to estimate the fair values of financial liabilities are discussed in Note 32.

20. Long-term Debt

Long-term debt consists of:

	<i>Note</i>	2019	2018
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (a)		P29,669,514	P -
Fixed interest rate of 6.7500% maturing in 2023 (b)		14,853,800	14,823,529
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (c)		19,844,789	19,812,609
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)		14,914,240	14,889,229
		79,282,343	49,525,367
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (e)		14,596,547	14,726,126
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (f) (g)		34,924,385	43,799,781
Subsidiaries			
Peso-denominated			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (h)		41,273,836	42,247,279
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (i)		19,669,115	20,060,138
Foreign currency-denominated			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (j) (k)		27,835,019	27,504,342
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (j) (k)		9,217,796	9,102,227
		147,516,698	157,439,893
	31, 32	226,799,041	206,965,260
Less current maturities		6,036,174	4,939,454
		P220,762,867	P202,025,806

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

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

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

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

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

Unamortized debt issue costs amounted to P330,486 as at December 31, 2019. Accrued interest and interest expense amounted to P333,971 and P1,470,885, respectively, as at and for the year ended December 31, 2019.

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

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

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

Unamortized debt issue costs amounted to P146,200 and P176,471 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P101,260 and P99,000 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,012,500 and P376,875 in 2019 and 2018, respectively.

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

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

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

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

Unamortized debt issue costs amounted to P155,211 and P187,391 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P23,945 and P23,536 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,176,795, P1,170,258 and P29,420 in 2019, 2018 and 2017, respectively.

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

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

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

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

Unamortized debt issue costs amounted to P85,760 and P110,771 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P138,222 and P127,503 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P708,349 in 2019, 2018 and 2017.

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

Unamortized debt issue costs amounted to P103,453 and P123,874 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P182,936 and P184,802 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,038,326, P1,043,088 and P455,995 in 2019, 2018 and 2017, respectively.

- f. The amount represents the remaining balance of a US\$500,000, 5-year credit facility agreement with a foreign financial institution availed by the Parent Company on March 15, 2018. The proceeds were used to partially finance the acquisition of the Masinloc Group (Note 5).

On April 30, 2019, the Parent Company fully paid the remaining balance of US\$150,000 out of the US\$500,000 term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance.

Unamortized debt issue costs and accrued interest amounted to P176,169 and P18,622, respectively, as at December 31, 2018. Interest expense amounted to P151,821 and P750,552 in 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P520,115 and P717,050 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P11,922 and P19,092 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,463,614 and P1,117,855 in 2019 and 2018, respectively.

- h. The amount represents the remaining balance of the P42,000,000 and P2,000,000 drawn by SCPC on June 28, 2017 and January 31, 2018, respectively, from a P44,000,000, 12-year Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks dated June 22, 2017. The proceeds were used mainly by SCPC for the following purposes:
 - i. the settlement of the US\$360,000 short-term loan availed on May 8, 2017 from a local bank;
 - ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant from LETI; and
 - iii. the repayment of advances from the Parent Company.

Unamortized debt issue costs amounted to P626,164 and P702,720 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P25,575 and P18,493 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P2,786,827, P2,840,950 and P1,390,948 (inclusive of P437,109, P948,070 and P872,289 capitalized in CIP) in 2019, 2018 and 2017, respectively.

- i. The amount represents the remaining balance of the P20,322,000 and P978,000 drawn by SMCPD in tranches on August 17, 2018 and July 31, 2019, respectively, from a P21,300,000, 12-year OLSA with a syndicate of local banks, signed on August 9, 2018. The loan is payable in 48 quarterly installments up to August 2030. The proceeds were used mainly by SMCPD for the following purposes:
 - i. the repayment in full of the P5,930,000 short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant;
 - ii. the partial financing of the remaining works for the project;
 - iii. the repayment of advances from the Parent Company; and
 - iv. the payment of transaction-related fees and expenses.

Unamortized debt issue costs amounted to P334,993 and P261,862 as at December 31, 2019 and 2018, respectively. Accrued interest amounted to P159,917 and P154,037 as at December 31, 2019 and 2018, respectively. Interest expense amounted to P1,574,840 and P595,144 (inclusive of P28,198, and P7,029 capitalized in CPIP) in 2019 and 2018, respectively.

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

Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P15,167 and P5,055, and P26,957 and P9,728 as at December 31, 2019 and 2018, respectively. Accrued interest pertaining to fixed and floating interest tranche amounted to P80,992 and P23,676, and P94,777 and P31,592, as at December 31, 2019 and 2018, respectively. Interest expense on fixed and floating interest tranche amounted to P590,810 and P181,198 (inclusive of P336,666 and P103,253 capitalized in CPIP, respectively) and P498,955 and P166,318 (inclusive of P276,934 and P92,311 capitalized in CPIP, respectively) in 2019 and 2018, respectively.

- k. The amount represents the US\$481,558 total outstanding loan drawn in tranches by MPPCL from its Omnibus Expansion Financing Agreement (OEFA) dated December 1, 2015, with local banks, to finance the construction of the additional 335 MW (gross) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on December 15, 2030.

Unamortized debt issue costs pertaining to fixed and floating interest tranche amounted to P338,757 and P96,487, and P375,611 and P123,648, as at December 31, 2019 and 2018, respectively. Accrued interest pertaining to fixed and floating interest tranche amounted to P171,354 and P39,495, and P148,110 and P48,756, as at December 31, 2019 and 2018, respectively. Interest expense on fixed and floating interest tranche amounted to P1,111,141 and P299,158, capitalized in CPIP, and P637,012 and P209,698, (inclusive of P353,560 and P116,389 capitalized in CPIP) in 2019 and 2018, respectively.

Valuation Technique for Peso-denominated Bonds

The market value was determined using the market comparison technique. The fair values are based on PDEX. The Bonds are traded in an active market and the quotes reflect the actual transactions in identical instruments.

The fair value of the Bonds, amounting to P86,716,963 and P47,499,734 as at December 31, 2019 and 2018, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

The debt agreements of the Parent Company, SCPC, SMCP 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, SMCP 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, SMCP and MPPCL to secure any indebtedness, subject to certain exceptions.

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

As at December 31, 2019 and 2018, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	2019	2018
Balance at beginning of year	P2,992,252	P1,271,299
Additions	549,248	1,560,440
Acquisition of subsidiaries	-	572,065
Currency translation adjustments	(18,272)	34,658
Capitalized amount	(46,464)	(21,037)
Amortization	(718,916)	(425,173)
Balance at end of year	P2,757,848	P2,992,252

Repayment Schedule

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

Year	Gross Amount		Debt Issue Costs	Net
	US Dollar	Peso Equivalent of US Dollar	Peso	
2020	US\$64,901	P3,286,273	P2,955,892	P205,991
2021	269,378	13,639,975	9,894,142	309,353
2022	49,723	2,517,704	27,729,564	399,588
2023	676,554	34,257,322	23,292,184	784,918
2024	29,306	1,483,889	34,259,804	315,739
2025 to thereafter	350,896	17,767,618	58,472,522	742,259
	US\$1,440,758	P72,952,781	P156,604,108	P2,757,848
				P226,799,041

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 31.

21. Related Party Disclosures

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

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

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	24, 26	2019	P453,498	P777,521	P135,865	P74,397	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2018	483,003	925,639	87,768	29,339		
	11, 17	2019	-	-	676	-	1 year; non-interest bearing	Unsecured; no impairment
		2018	-	-	96,203	-		
Entities under Common Control	7, 9, 10, 19, 24, 25, 26	2019	3,036,199	1,667,408	633,217	4,294,378	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2018	2,697,651	1,077,826	5,150,603	526,290		
	19	2019	-	-	-	492	More than 1 year; non-interest bearing	Unsecured; no impairment
		2018	-	-	-	492		
Associates	9, 12, 19, 24	2019	1,253,058	9,416	369,603	29,813	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2018	996,108	16,647	117,229	29,936		
	9, 17	2019	13,624	-	213,753	-	9 years; interest bearing	Unsecured; no impairment
		2018	13,342	-	250,581	-		
Joint Venture	9, 27	2019	30,281	312,233	2,472	-	30 days; non-interest bearing	Unsecured; no impairment
		2018	30,395	86,700	7,653	-		
	9, 12	2019	5,367	-	132,402	-	92 days; interest bearing	Unsecured; no impairment
		2018	15,138	-	131,928	-		
Associates of Entities under Common Control	7, 9, 10, 24	2019	933,917	-	199,301	1,150	30 days; non-interest bearing	Unsecured; no impairment
		2018	893,024	-	162,488	-		
Others	9, 19, 24	2019	2,238,738	-	400,859	51,458	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2018	1,832,837	-	424,730	1,041		
		2019	P7,964,682	P2,766,578	P2,088,148	P4,451,688		
		2018	P6,961,498	P2,106,812	P6,429,183	P587,098		

- Amounts owed by related parties consist of trade and other receivables, derivative assets and security deposits (Notes 9, 11 and 17).
- Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC (Notes 12 and 19).
- Amounts owed by associates mainly consist of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 9 and 17).
- Amounts owed by a joint venture consists of interest bearing loan granted and management fees charged to AHC by PVEI included as part of "Trade and other receivables" account in the consolidated statements of financial position (Notes 9, 12 and 27).

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

	Note	2019	2018	2017
Short-term employee benefits		P113,813	P103,911	P81,537
Retirement cost (benefit)	22	4,171	(1,451)	1,398
		P117,984	P102,460	P82,935

22. Retirement Plans

The Parent Company, SMEC, MPPCL, SMCGP Transpower and SPHI have unfunded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability are determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

The following table shows reconciliation of the net defined benefit retirement obligation and its component:

	2019	2018
Balance at beginning of year	P227,091	P78,104
Benefit obligation of newly-acquired subsidiaries	-	188,411
Recognized in Profit or Loss		
Current service cost	20,268	31,740
Interest expense	10,686	14,070
Settlement gain	(167,442)	(13,285)
	(136,488)	32,525
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	30,491	1,779
Changes in financial assumptions	2,739	(33,342)
	33,230	(31,563)
Others		
Cumulative translation adjustment	17,412	(22,956)
Transfer from other plans	-	598
Transfer to other plans	-	(598)
Benefits paid	(1,733)	(17,430)
	15,679	(40,386)
Balance at end of year	P139,512	P227,091

Defined benefit retirement obligation included as part of "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts in the consolidated statements of financial position, amounted to P139,512 and P227,091 as at December 31, 2019 and 2018, respectively (Note 19).

Settlement gain mainly pertains to the difference of the settlement price and the retirement benefits obligation of the resigned employees of a subsidiary. Due to the settlement of the retirement benefit obligation of a subsidiary, related reserve for retirement plan and translation reserves amounting to P28,626 and (P333), respectively, was charged to retained earnings.

Retirement costs recognized in the consolidated statements of income by the Parent Company amounted to P16,563, P13,400 and P12,104 in 2019, 2018 and 2017, respectively (Notes 25 and 26).

Retirement costs (benefits) recognized in the consolidated statements of income by the subsidiaries amounted to (P153,051), P19,125 and P549 in 2019, 2018 and 2017, respectively (Notes 25 and 26).

The equity reserve for retirement plan as at December 31, 2019 and 2018, includes the Group's and an associate's accumulated net actuarial gains and losses recognized in other comprehensive income, net of tax, amounted to P63,403 and (P8,052), respectively.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2019	2018
Discount rate	4.61% - 5.25%	7.13% - 7.51%
Salary increase rate	5.00%	6.50% - 7.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the defined benefit retirement obligation ranges from 5.9 to 8.2 years and 6.2 to 21 years as at December 31, 2019 and 2018, respectively.

Sensitivity Analysis

As at December 31, 2019 and 2018, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2019		2018	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(P10,484)	P12,224	(P15,985)	P18,719
Salary increase rate	12,129	(10,599)	17,666	(15,384)

Risks and Management of Risks

The defined benefit retirement obligation exposes the Group to actuarial risks, such as longevity risk and interest rate risk.

The defined benefit retirement obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit retirement obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit retirement obligation. Also, benefit claims under the defined benefit retirement obligation will be paid directly by the Group when they become due.

23. Equity

Capital Stock

As at December 31, 2019 and 2018, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of subscribed capital stock, amounting to P1,250,004, and net of subscription receivable, amounting to P187,500, as at December 31, 2019 and 2018.

The number of shares subscribed is 1,250,004,000 common shares as at December 31, 2019 and 2018.

Equity Reserves

In September 2010, the Parent Company acquired the remaining 40% non-controlling ownership interest of SMC in SMEC and SPDC. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

In July 2018, PEGC acquired the 60% non-controlling ownership interest of ALCO in Alpha Water. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

In January 2019, the Parent Company subscribed to the remaining unissued common shares of MPGC, thereby increasing its equity ownership from 49% to 73.58%. In September 2019, The Parent Company's equity ownership was further increased to 89.54% as a result of an additional subscription to the increase in the authorized capital stock of MPGC (Note 12). The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

Retained Earnings

The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P3,012,216 and P667,627 as at December 31, 2019 and 2018, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

There were no cash dividend declarations to stockholders during the years ended December 31, 2019, 2018 and 2017.

Parent Company

In 2018 and 2017, reversals of the remaining appropriated retained earnings from the appropriations that was approved by the BOD in 2015 for the debt servicing of redenominated US\$700,000 loan, amounted to P3,580,000 and P1,154,000, respectively.

Total appropriated retained earnings of the Parent Company amounted to P3,580,000 as at December 31, 2017. There were no appropriations of retained earnings of the Parent Company in 2019 and 2018.

SMEC, SPPC and SPDC

On December 18, 2017, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings amounting to P2,585,000, P3,514,050 and P474,000, respectively, for the fixed monthly PSALM payments, pursuant to their IPPA Agreements.

On December 21, 2018, the BOD of SPPC approved the appropriation of retained earnings amounting to P2,685,700 for the fixed monthly PSALM payments, pursuant to its IPPA Agreement. On the same date, the BOD of SPDC approved the re-appropriation of its remaining P1,566,600 appropriated retained earnings, initially intended for San Roque Optimization pumped-storage project, for the fixed monthly PSALM payments of SPDC, pursuant to its IPPA Agreement.

On December 18, 2019, the BOD of SPDC approved the appropriation of retained earnings amounting to P733,400 for the fixed monthly PSALM payments, pursuant to its IPPA Agreements.

In 2018, the appropriations reversed by SMEC and SPDC amounted to P290,000 and P67,400, respectively.

In 2019, the total appropriations utilized and reversed by SMEC, SPPC and SPDC amounted to P6,149,300, P9,158,600 and P759,000, respectively.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P14,075,050, P29,408,550 and P27,080,250 as at December 31, 2019, 2018 and 2017, respectively.

USCS

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

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

Amount in Philippine Peso pertains to proceeds net of directly attributable transaction costs.

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

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

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

On November 7, 2019 (the “Step-Up Date”), the Parent Company completed the redemption of the US\$300,000 USCS issued on May 7, 2014 (the “US\$300,000 USCS”), equivalent to P15,183,000 on redemption date, pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US\$300,000 USCS, dated September 27, 2019. The redemption price of the US\$300,000 USCS includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The difference between the price paid and the US\$300,000 USCS amounted to P2,072,934 and was recognized as part of the “Equity reserves” account in the consolidated statements of financial position as at December 31, 2019.

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

Distributions to USCS Holders

Details of distributions paid to USCS holders are as follows:

	2019	2018	2017
February	P757,133	P746,068	P720,611
May	837,321	830,491	799,583
August	758,435	767,981	729,868
November	830,478	870,750	824,142
	P3,183,367	P3,215,290	P3,074,204

RPS

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

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

The proceeds were used to partially finance the acquisition of the Masinloc Group by the Parent Company (Note 5).

Distribution to RPS Holder

Details of distributions paid to RPS holder are as follows:

	2019	2018
March	P530,512	P -
June	527,363	543,156
September	525,992	536,758
December	512,891	541,277
	P2,096,758	P1,621,191

SPCS

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

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Issue price	Amount of SPCS Issued	Amount in Philippine Peso
November 5, 2019	May 5 and November 5 of each year	5.95% per annum	May 5, 2025	100.000%	US\$500,000	P24,834,696
July 3, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	102.052%	300,000	15,440,347
April 25, 2019	April 25 and October 25 of each year	6.50% per annum	April 25, 2024	100.000%	500,000	25,610,522
					US\$1,300,000	P65,885,565

Amount in Philippine Peso pertains to proceeds net of directly attributable transaction costs.

The US\$300,000 SPCS issued in July 2019 (the “Additional Securities”) was issued at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities are consolidated into and form a single series with the US\$500,000 SPCS issued in April 2019 (the “Original Securities”), bringing the total securities to US\$800,000 (the “US\$800,000 SPCS”). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price.

The SPCS were offered for sale and were sold mainly offshore and to a limited number of qualified buyers in the Philippines. Hence, the offer and sale of the SPCS qualified as an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulations Code was required to be filed with the Philippine SEC.

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

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

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

On January 21, 2020, the Parent Company issued another US\$600,000 SPCS (the “US\$600,000 SPCS”), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The US\$600,000 SPCS was listed in the SGX-ST on January 22, 2020. The net proceeds from the issue of the US\$600,000 SPCS will be applied by the Parent Company for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

Distributions to SPCS Holders

On October 24, 2019, the Parent Company paid distributions amounting to US\$26,000 (equivalent to P1,923,629, inclusive of accrued distributions from April 25 to July 2, 2019 amounting to P190,760) to the holders of the US\$800,000 SPCS.

24. Revenues

Revenues consist of:

	Note	2019	2018	2017
Sale of power	6, 21	P111,950,126	P101,294,837	P70,494,762
Retail and other power-related services	6, 7, 21	23,095,136	18,808,010	12,295,813
Others		14,817	-	-
		P135,060,079	P120,102,847	P82,790,575

Other revenue pertains to operations and maintenance services provided by a subsidiary to an entity under common control (Note 21).

25. Cost of Power Sold

Cost of power sold consist of:

	Note	2019	2018	2017
Coal, fuel oil and other consumables	10, 21	P31,362,501	P32,563,689	P13,039,144
Energy fees		26,417,124	25,423,530	23,726,459
Power purchases		21,434,786	11,181,239	10,725,490
Depreciation and amortization	13, 14, 16	9,651,522	9,108,899	5,842,367
Plant operations and maintenance, and other fees	21, 22	2,892,267	2,540,949	491,854
	6, 7	P91,758,200	P80,818,306	P53,825,314

26. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	Note	2019	2018	2017
Taxes and licenses		P1,239,190	P1,171,370	P945,406
Outside services		1,191,920	658,604	189,268
Salaries, wages and benefits	21, 22	1,148,933	820,552	708,162
Management fees	21	780,902	798,039	664,493
Donations		486,702	231,992	303,426
Repairs and maintenance		424,624	292,251	126,906
Corporate special program		376,454	309,220	349,667
Rent	4, 7, 21	323,373	356,606	376,499
Depreciation and amortization	6, 13, 14, 16	266,134	231,336	222,564
Impairment losses on trade receivables	9	257,879	135,426	-
Travel and transportation		234,156	184,140	132,869
Advertising and promotions		150,300	51,821	70,772
Professional fees		131,296	524,726	136,397
Supplies		109,951	120,342	210,687
Insurance		12,842	38,260	19,198
Miscellaneous		213,538	185,525	232,667
		P7,348,194	P6,110,210	P4,688,981

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

27. Other Income (Charges)

Other income (charges) consist of:

	Note	2019	2018	2017
Foreign exchange gains (losses) - net	31	P2,839,579	(P5,315,726)	(P632,416)
PSALM monthly fees reduction	7	1,170,542	1,615,181	3,283,745
Construction revenue	4, 7	206,397	140,212	123,336
Gain on sale of property, plant and equipment	13	1,402	-	-
Loss on retirement of equipment	13	(66)	(34,869)	-
Impairment losses on property, plant and equipment	13	(35,084)	(70,265)	-
Construction cost	4, 7	(206,397)	(140,212)	(123,336)
Miscellaneous income - net	4, 7, 13, 21, 32	222,882	259,077	292,836
		P4,199,255	(P3,546,602)	P2,944,165

Miscellaneous income recognized in 2019, 2018 and 2017 mostly pertain to management income, rent income, marked-to-market gain on derivatives, utilities income and sale of fly ash to related parties (Notes 4, 7, 13, 21 and 32).

28. Income Taxes

The components of income tax expense are as follows:

	<i>Note</i>	2019	2018	2017
Current	29	P2,256,733	P2,931,295	P2,003,146
Deferred		5,006,383	970,237	4,176,364
		P7,263,116	P3,901,532	P6,179,510

The movements in deferred tax assets (liabilities) - net are as follows:

2019	Balance at January 1	Adjustments Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade receivables	P422,117	P -	P77,339	P -	P -	P499,456
Defined benefit retirement obligation	95,299	-	(31,950)	-	-	63,349
Difference of amortization of borrowing costs over payment and others	53,067	-	38,709	-	(23,700)	68,076
Difference of depreciation and other related expenses over monthly lease payments	(7,623,074)	13,671	(5,090,481)	-	-	(12,699,884)
Equity reserve for retirement plan	9,247	-	-	(9,148)	-	99
Net loss on cash flow hedges	790	-	-	(790)	-	-
	(P7,042,554)	P13,671	(P5,006,383)	(P9,938)	(23,700)	(P12,068,904)

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade receivables	P458,043	P40,628	P -	(P76,554)	P422,117
Defined benefit retirement obligation	13,303	9,758	-	72,238	95,299
Difference of amortization of borrowing costs over payment and others	(1,410,812)	1,588,000	-	(124,121)	53,067
Difference of depreciation and other related expenses over monthly lease payments	(5,077,847)	(2,608,623)	-	63,396	(7,623,074)
Equity reserve for retirement plan	10,128	-	(881)	-	9,247
Net loss on cash flow hedges	-	-	790	-	790
	(P6,007,185)	(P970,237)	(P91)	(P65,041)	(P7,042,554)

The deferred taxes are reported in the consolidated statements of financial position as follows:

	2019	2018
Deferred tax assets	P1,128,754	P1,137,565
Deferred tax liabilities	(13,197,658)	(8,180,119)
	(P12,068,904)	(P7,042,554)

As at December 31, 2019, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2019	December 31, 2022	P10,808,566	P43,730
Year 2018	December 31, 2021	5,757,427	60,608
Year 2017	December 31, 2020	7,893,653	38,005
		P24,459,646	P142,343

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	10.92%	15.11%	18.06%
Availment of optional standard deduction and others	(7.34%)	(13.13%)	(5.14%)
Effective income tax rate	33.58%	31.98%	42.92%

29. Registrations and License

Registrations with the Board of Investments (BOI)

- i. In 2013, SMCP and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the NGCP. Subsequently, on December 21, 2016, BOI granted a similar request of SMCP to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCP's request on the further extension of the ITH reckoning date from July 2016 to September 2017 was likewise approved by the BOI on December 5, 2018. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- ii. On September 20, 2016, LETI (formerly LPPC) was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LETI as an “Expansion” based on the 2014 to 2016 IPP's Specific Guidelines for “Energy” in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LETI is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LETI's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LETI to SCPC. On July 13, 2018, BOI granted the request of SCPC to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 and Unit 4 commenced on March 26, 2018.

On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCP, SCPC and LETI, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled “Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories Imported by BOI Registered New and Expanding Enterprises.” The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCP and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled “Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories Imported by BOI Registered New and Expanding Enterprises”. The COA shall be valid for 1 year from the date of issuance. All capital equipment, spare parts and accessories imported by SCPC for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- iii. SMEC, SPDC and SPPC are registered with the BOI as administrator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.
- iv. On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-pioneer Status.

- v. On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 600 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for 3 years from June 2017 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On May 27, 2014, the BOI approved MPPCL's request to move the start of its commercial operation and the reckoning date of the ITH entitlement from June 2017 to December 2018. On June 17, 2015, the BOI subsequently granted MPPCL's requests to downgrade the registered capacity from 600 MW to 300 MW.

On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10 MW BESS Project on a pioneer status. The BESS Facility provides 10 MW of interconnected capacity and enhances the reliability of the Luzon grid using the *Advancion* energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for 6 years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration. The ITH period for the 10 MW BESS of MPPCL commenced on December 1, 2018.

- vi. On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20 MW Kabankalan *Advancion* Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for 6 years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). On November 27, 2019, SMCGP Philippines Energy filed a request with the BOI to move the reckoning date of the ITH entitlement from July 2019 to July 2021. The said request for extension is still under evaluation by the BOI. The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.
- vii. On April 24, 2019, MPGC was registered with Freeport Area of Bataan (FAB) as engaged in business of producing and generating electricity, processing fuels alternative for power generation, among others. As FAB enterprise, MPGC will operate a 4 x 150 MW power plant. As such, FAB granted MPGC certain incentives that include, among others, an ITH for 4 years for each unit effective on the committed date of start of commercial operations or actual date of start of commercial operations, whichever is earlier.
- viii. On November 28, 2019, the BOI has approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. Each registered site was granted with certain incentives including ITH, among others.

License Granted by the ERC

On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA, which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another 5 years from August 22, 2016 up to August 21, 2021.

30. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	P14,370,482	P8,281,774	P8,216,916
Distributions to RPS holder for the year	(2,094,049)	(1,710,194)	-
Distributions to SPCS holders for the year	(2,875,170)	-	-
Distributions to USCS holders for the year	(2,887,771)	(3,229,781)	(3,076,042)
Net income attributable to common shareholders of the Parent Company (a)	6,513,492	3,341,799	5,140,874
Weighted average number of common shares outstanding (in thousands) (b)	1,250,004	1,250,004	1,250,004
Basic/Diluted Earnings Per Share (a/b)	P5.21	P2.67	P4.11

As at December 31, 2019, 2018 and 2017, the Group has no dilutive debt or equity.

31. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group, such as call spread swaps, currency forwards and commodity swaps, are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

Interest Rate Risk

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

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

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

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

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

Interest Rate Risk Table

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

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

December 31, 2018	< 1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,436,391	P2,896,390	P9,834,640	P13,825,163	P23,232,643	P75,896,773	P128,122,000
Interest rate	6.2836% to 7.7521%	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	5.1792% to 7.7521%	
Foreign currency-denominated (expressed in Philippine peso)	1,949,148	2,477,048	2,606,388	1,838,347	6,814,415	12,221,564	27,906,910
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959% to 5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	648,209	822,347	11,381,301	609,014	36,444,509	4,023,222	53,928,602
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P5,033,748	P6,195,785	P23,822,329	P16,272,524	P66,491,567	P92,141,559	P209,957,512

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P447,638, P539,286 and nil in 2019, 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

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

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

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

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

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

		December 31, 2019		December 31, 2018	
	Note	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	8	US\$1,194,851	P60,501,300	US\$289,050	P15,198,248
Trade and other receivables	9	168,231	8,518,354	157,125	8,261,638
Investment in debt instruments	11	-	-	1,027	54,009
		1,363,082	69,019,654	447,202	23,513,895
Liabilities					
Loans payable	18	45,000	2,278,575	165,000	8,675,700
Accounts payable and accrued expenses	19	187,444	9,491,242	153,013	8,045,444
Long-term debt (including current maturities)	20	1,440,758	72,952,781	1,556,400	81,835,512
Lease liabilities (including current portion)	7	1,281,646	64,896,116	1,498,645	78,798,731
Other noncurrent liabilities		6,026	305,132	3,456	181,705
		2,960,874	149,923,846	3,376,514	177,537,092
Net foreign currency-denominated monetary liabilities					
		US\$1,597,792	P80,904,192	US\$2,929,312	P154,023,197

The Group reported net gains (losses) on foreign exchange amounting to P2,839,579, (P5,315,726) and (P632,416) in 2019, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 27).

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

	US Dollar to Philippine Peso
December 31, 2019	50.64
December 31, 2018	52.58
December 31, 2017	49.93

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

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2018				
Cash and cash equivalents	(P249,946)	(P214,066)	P249,946	P214,066
Trade and other receivables	(89,044)	(133,806)	89,044	133,806
Investment in debt instruments	-	(1,027)	-	1,027
	(338,990)	(348,899)	338,990	348,899
Loans payable	120,000	129,000	(120,000)	(129,000)
Accounts payable and accrued expenses	46,673	138,988	(46,673)	(138,988)
Long-term debt (including current maturities)	850,000	1,301,400	(850,000)	(1,301,400)
Finance lease liabilities (including current portion)	784,542	1,049,570	(784,542)	(1,049,570)
Other noncurrent liabilities	3,132	2,516	(3,132)	(2,516)
	1,804,347	2,621,474	(1,804,347)	(2,621,474)
	P1,465,357	P2,272,575	(P1,465,357)	(P2,272,575)

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

Commodity Price Risk

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

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

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

Liquidity Risk

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

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

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

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

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

*Excluding statutory receivables and payables

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,511,862	P28,511,862	P28,511,862	P -	P -	P -
Trade and other receivables - net*	32,964,489	32,964,489	32,964,489	-	-	-
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	54,009	54,009	54,009	-	-	-
Derivative asset not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	96,203	96,203	96,203	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	163,630	163,630	-	-	163,630	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	344,440	371,445	79,143	39,427	115,903	136,972
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	4,742,219	4,742,219	1,045,598	3,696,621	-	-
Financial Liabilities						
Loans payable	8,675,700	8,695,949	8,695,949	-	-	-
Accounts payable and accrued expenses	23,000,847	23,000,847	23,000,847	-	-	-
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	983	983	983	-	-	-
Long-term debt - net (including current maturities)	206,965,260	281,593,786	16,872,297	17,734,562	134,539,115	112,447,812
Finance lease liabilities (including current portion)	142,007,061	169,122,008	26,999,954	29,670,859	76,222,388	36,228,807
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	385,232	383,011	53,049	55,533	89,331	185,098

*Excluding statutory receivables and payables

Credit Risk

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

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

Trade and Other Receivables

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

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

Financial information on the Group's maximum exposure to credit risk as at December 31, without considering the effects of other risk mitigation techniques, is presented below:

	Note	2019	2018
Cash and cash equivalents (excluding cash on hand)	8	P79,951,936	P28,509,806
Trade and other receivables - net*	9	29,834,844	32,964,489
Investment in debt instruments	11	-	54,009
Derivative assets not designated as cash flow hedge	11	676	96,203
Derivative assets designated as cash flow hedge	17	75,518	163,630
Noncurrent receivables	9, 17	454,481	344,440
Restricted cash	11, 17	6,689,975	4,742,219
		P117,007,430	P66,874,796

*Excluding statutory receivables

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

December 31, 2019	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
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

December 31, 2018	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
Cash and cash equivalents (excluding cash on hand)	P28,509,806	P -	P -	P -	P -	P28,509,806
Trade and other receivables	-	32,964,489	2,574,423	-	-	35,538,912
Investment in debt instruments	54,009	-	-	-	-	54,009
Derivative asset not designated as cash flow hedge	-	-	-	96,203	-	96,203
Derivative assets designated as cash flow hedge	-	-	-	-	163,630	163,630
Noncurrent receivables	-	344,440	-	-	-	344,440
Restricted cash	4,742,219	-	-	-	-	4,742,219
	P33,306,034	P33,308,929	P2,574,423	P96,203	P163,630	P69,449,219

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

The aging of trade and other receivables is as follows:

	December 31, 2019				December 31, 2018			
	Trade	Non-trade	Amounts Owed by Related Parties	Total	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P11,055,287	P1,627,887	P852,680	P13,535,854	P10,002,101	P1,283,318	P5,291,656	P16,577,075
Past due:								
1-30 days	1,709,774	182,485	448,747	2,341,006	2,454,136	145,195	419,050	3,018,381
31-60 days	728,531	62,108	895	791,534	1,022,937	101,006	9,972	1,133,915
61-90 days	127,899	57,845	1,200	186,944	280,786	173,005	6,749	460,540
Over 90 days	7,899,428	7,339,194	569,368	15,807,990	7,639,786	6,353,193	356,022	14,349,001
	P21,520,919	P9,269,519	P1,872,890	P32,663,328	P21,399,746	P8,055,717	P6,083,449	P35,538,912

The Group believes that the unimpaired amounts that are past due and those that are neither past due nor impaired are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

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

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 46%, 45% and 52% of the Group's total revenues for the years ended December 31, 2019 and 2018, 2017, respectively.

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

Other Market Price Risk

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

Capital Management

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

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, RPS, USCS and SPCS (Notes 20 and 23).

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

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

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

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

32. Financial Assets and Financial Liabilities

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P79,954,187	P79,954,187	P28,511,862	P28,511,862
Trade and other receivables - net*	29,834,844	29,834,844	32,964,489	32,964,489
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	-	-	54,009	54,009
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	676	676	96,203	96,203
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	75,518	75,518	163,630	163,630
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	454,481	454,481	344,440	344,440
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	6,689,975	6,689,975	4,742,219	4,742,219
	P117,009,681	P117,009,681	P66,876,852	P66,876,852
Financial Liabilities				
Loans payable	P2,278,575	P2,278,575	P8,675,700	P8,675,700
Accounts payable and accrued expenses	26,971,319	26,971,319	23,000,847	23,000,847
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	18,636	18,636	983	983
Long-term debt - net (including current maturities)	226,799,041	250,190,405	206,965,260	209,582,998
Lease liabilities (including current portion)	124,202,679	124,202,679	142,007,061	142,007,061
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	930,437	937,562	385,232	392,867
	P381,200,687	P404,599,176	P381,035,083	P383,660,456

*Excluding statutory receivables and payables

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

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

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

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

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 3.09% to 4.52% and 5.22% to 7.06% as at December 31, 2019 and 2018, respectively. Discount rates used for foreign currency-denominated loans range from 1.59% to 1.97% and 2.46% to 2.97% as at December 31, 2019 and 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps

As at December 31, 2019 and 2018, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US\$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. The positive fair value of the call spread swaps, included under "Other noncurrent assets" account, amounted to P75,518 and P163,630 as at December 31, 2019 and 2018, respectively.

The table below provides for a reconciliation of the components of equity and other comprehensive income items, net of tax, resulting from cash flow hedge accounting as at December 31:

	2019	2018
Balance at beginning of year	(P1,844)	P -
Changes in fair value of derivatives	(88,112)	(24,747)
Amount reclassified to profit or loss:		
Interest expense and other financing charges	50,836	22,113
Reversal of prior year income tax benefit	(790)	-
Income tax benefit	-	790
Balance at end of year	(P39,910)	(P1,844)

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the years ended December 31, 2019 and 2018.

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards

The Group entered into short-term foreign currency forward contracts with aggregate notional amount of US\$90,000 and US\$5,000 as at December 31, 2019 and 2018, respectively. The negative fair value of these currency forwards amounted to P15,225 and P983 as at December 31, 2019 and 2018, respectively.

Commodity Swaps

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 233,000 metric tons and 60,000 metric tons as at December 31, 2019 and 2018, respectively. The net positive (negative) fair value of these commodity swaps amounted to (P2,735) and P96,203 as at December 31, 2019 and 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding derivatives amounting to (P264,824), P23,036 and P50,470 in 2019, 2018 and 2017, respectively (Note 27).

Fair Value Changes on Derivatives

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

	2019	2018
Balance at beginning of year	P258,850	P61,903
Net change in fair value of derivatives:		
Designated as accounting hedge	(88,112)	185,743
Not designated as accounting hedge	(264,824)	23,036
	(94,086)	270,682
Less fair value of settled instruments	(151,644)	11,832
Balance at end of year	P57,558	P258,850

33. Supplemental Cash Flows Information

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

	Loans Payable	Long-term Debt	Lease Liabilities	USCS	SPCS	Total
Balance as at January 1, 2019	P8,675,700	P206,965,260	P142,007,061	P26,933,565	P -	P384,581,586
Changes from financing cash flows						
Proceeds from borrowings	9,179,550	34,834,600	-	-	-	44,014,150
Proceeds from issuance of SPCS	-	-	-	-	65,885,565	65,885,565
Payments of USCS redemption	-	-	-	(15,183,000)	-	(15,183,000)
Payments of borrowings	(15,436,350)	(12,406,504)	-	-	-	(27,842,854)
Payments of lease liabilities	-	-	(19,297,119)	-	-	(19,297,119)
Total changes from financing cash flows	(6,256,800)	22,428,096	(19,297,119)	(15,183,000)	65,885,565	47,576,742
Adjustments due to adoption of PFRS 16	-	-	1,450,467	-	-	1,450,467
Effect of changes in foreign exchange rates	(140,325)	(2,810,443)	(2,689,374)	-	-	(5,640,142)
Other changes	-	216,128	2,731,644	2,072,934	-	5,020,706
Balance as at December 31, 2019	P2,278,575	P226,799,041	P124,202,679	P13,823,499	P65,885,565	P432,989,359

	Loans Payable	Long-term Debt	Lease Liabilities	RPS	Shareholder Advances	Total
Balance as at January 1, 2018	P5,930,000	P90,728,701	P154,793,690	P -	P -	P251,452,391
Changes from financing cash flows						
Proceeds from borrowings	41,937,600	106,026,200	-	-	7,789,500	155,753,300
Proceeds from issuance of RPS	-	-	-	32,751,570	-	32,751,570
Payments of borrowings	(41,510,000)	(22,112,232)	-	-	(8,013,750)	(71,635,982)
Payments of finance lease liabilities	-	-	(25,715,487)	-	-	(25,715,487)
Total changes from financing cash flows	427,600	83,913,968	(25,715,487)	32,751,570	(224,250)	91,153,401
Acquisition of subsidiaries	2,343,600	32,523,960	30,775	-	-	34,898,335
Effect of changes in foreign exchange rates	(48,000)	1,263,550	4,510,368	-	224,250	5,950,168
Other changes	22,500	(1,464,919)	8,387,715	-	-	6,945,296
Balance as at December 31, 2018	P8,675,700	P206,965,260	P142,007,061	P32,751,570	P -	P390,399,591

34. Other Matters

a. EPIRA

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 7).

The EPIRA requires generation and DU companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2019 and 2018.

b. Contingencies

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

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

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

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

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

ii. ERC Order Voiding WESM Prices

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

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

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

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

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

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

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

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

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

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

iii. Generation Payments to PSALM

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

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

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

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

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

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

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

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

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

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections *Ad Cautelam*.

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

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the CA, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although the CA dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "First CA Resolution"), the CA subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

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

iv. Criminal Cases

SPPC

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

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

SMEC

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

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

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

v. *Civil Cases*

SMEC

On June 17, 2016, SMEC filed with the RTC, Pasig City ("RTC Pasig") a civil complaint for consignment 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 Consignment 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 consignment.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignment 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 consignment case. The MR was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the MR and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

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

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

As at December 31, 2019 and 2018, the total amount consigned with the RTC Pasig is P491,242, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position.

c. Commitments

The outstanding purchase commitments of the Group amounted to P11,520,320 as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects as at December 31, 2019 is approximately P38,696,206.

d. Effects of Corona Virus Disease 2019 (COVID-19)

On March 8, 2020, under Proclamation 922, the President of the Philippines has declared a state of public health emergency throughout the Philippines due to the outbreak of the COVID-19.

The Group, being engaged in the power generation business, is not significantly affected by the aforesaid declaration since the Group will need to continue its operations as it is considered to be a provider of essential services.



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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated March 9, 2020.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J
- Reconciliation of Retained Earnings Available for Dividend Declaration

These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements. Such information have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

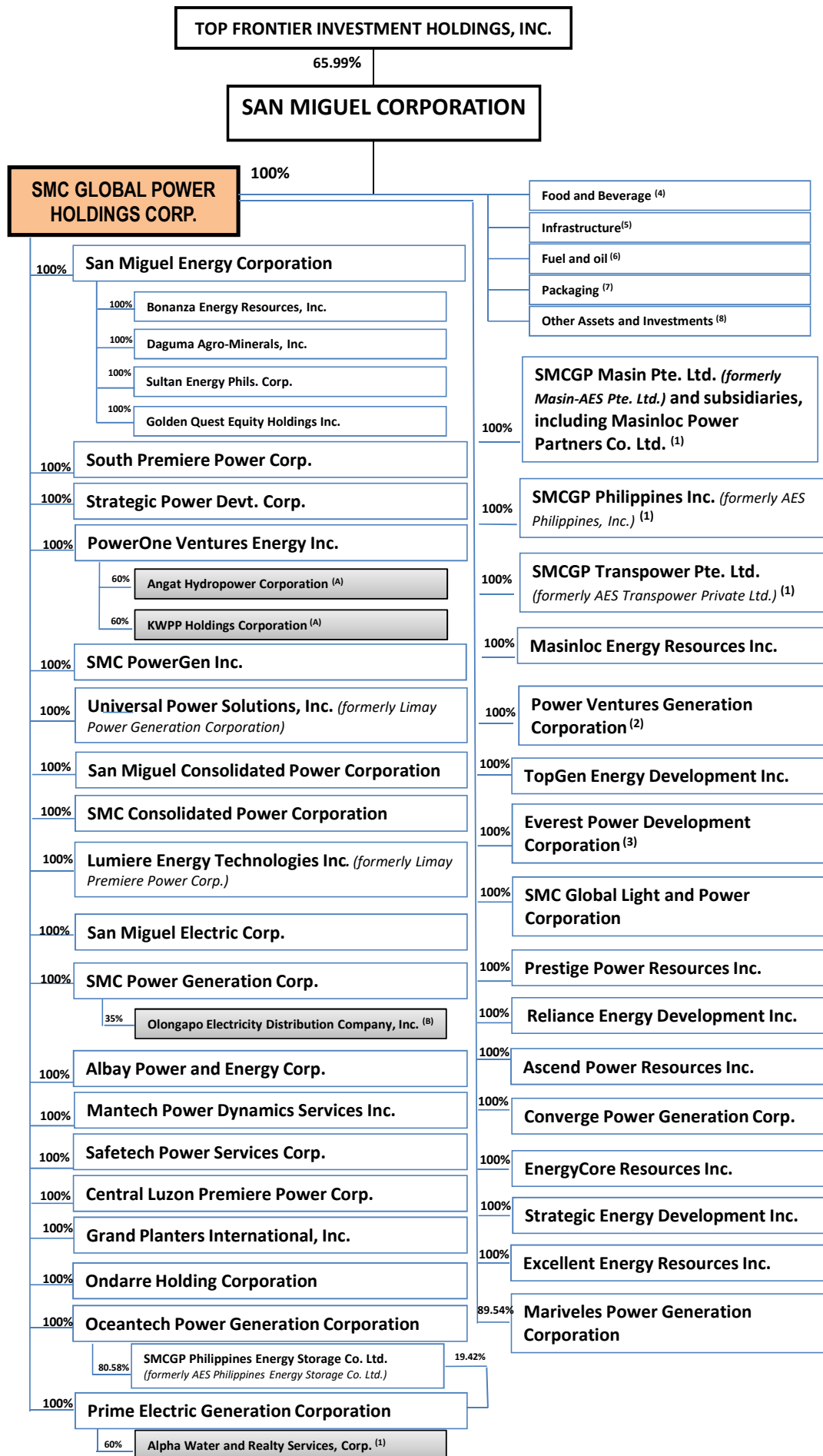
R.G. MANABAT & CO.

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DARWIN P. VIROCEL
Partner
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Tax Identification No. 912-535-864
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Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 9, 2020
Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP.
GROUP STRUCTURE *
As of December 31, 2019



- (1) Acquired in 2018; SMCGP Masin Pte. Ltd. subsidiaries include SMCGP Masinloc Partners Company Limited (formerly Masinloc AES Partners Company Limited) (99.92% partnership interest), SMCGP Masinloc Power Company Limited (formerly Masinloc AES Power Company Limited) (60% partnership interest while the remaining 40% partnership interest is owned by SMCGP Masinloc Partners Company Limited), and Strategic Holdings B.V. (100% equity interest). SMCGP Masinloc Power Company Limited owns 100% equity interest in Transpower Holdings B.V. and holds 99.95% interest in Masinloc Power Partners Co. Ltd. (MPPCL). MPPCL owns 40% equity interest in Alpha Water and Realty Services Corp. Strategic Holdings B.V., Transpower Holdings B.V. and SMCGP Masin Pte. Ltd. are in the process of liquidation as of December 31, 2019.
- (2) Power Ventures Generation Corporation owns 0.05% partnership interest in MPPCL.
- (3) Everest Power Development Corporation owns 0.08% partnership interest in SMCGP Masinloc Partners Company Limited.
- (4) Food and Beverage business include:
 - a. San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company Inc.) and subsidiaries include San Miguel Foods, Inc. and subsidiary, San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiary, San Miguel Super Coffeemix Co., Inc., PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia) and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investments (BVI) Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd.
 - b. Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverages Holdings Limited and Siam Holdings Limited
 - c. San Miguel Brewery Inc. and subsidiaries include San Miguel Brewing International Limited and subsidiaries, Iconic Beverages, Inc., Brewery Properties, Inc. and subsidiary, Brewery Landholdings, Inc. and San Miguel Brewing International Limited and subsidiaries including, San Miguel Brewery Hong Kong Limited and subsidiaries, San Miguel (Baoding) Brewery Co. Ltd., San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited and subsidiaries, San Miguel Brewery Vietnam Company Limited, PT. Delta Jakarta Tbk. and subsidiary.
- (5) Infrastructure business include San Miguel Holdings Corp. and subsidiaries, Vertex Tollways Devt. Inc., Trans Aire Development Holdings Corp., SMC TPLEX Holdings Company Inc. (formerly Rapid Thoroughfares Inc.), Private Infra Dev Corporation, Universal LRT Corporation (BVI) Limited, Sleep International (Netherlands) Cooperatief U.A., Wiselink Investment Holdings, Inc., Cypress Tree Capital Investments, Inc. and subsidiaries, Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, SMC Infraventures, Inc. and subsidiary, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc., Luzon Clean Water Development Corporation, Atlantic Aurum Investments B.V. and subsidiaries including Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.
- (6) Fuel and Oil business include SEA Refinery Corporation and subsidiary, Petron Corporation and subsidiaries including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd., Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
- (7) Packaging business include San Miguel Yamamura Packaging Corporation and subsidiaries, San Miguel Yamamura Packaging International Limited and subsidiaries, San Miguel Yamamura Asia Corporation and Mindanao Corrugated Fibreboard, Inc.
- (8) Other Assets and Investments include San Miguel Properties, Inc and subsidiaries., Bank of Commerce^(B), SMC Shipping and Lighterage Corporation and subsidiaries, San Miguel Equity Investments Inc. and subsidiaries including Northern Cement Corporation^(B) and San Miguel Northern Cement, Inc., SMC Asia Car Distributors Corp., SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, Anchor Insurance Brokerage Corporation, Davana Heights Development Corporation and subsidiaries, SMC Equivest Corporation and San Miguel Integrated Logistics Services, Inc.

* The group structure includes the ultimate parent company, Top Frontier Investment Holdings, Inc., the intermediate parent company, San Miguel Corporation and its major subsidiaries, associates and joint ventures, and SMC Global Power Holdings Corp. and subsidiaries.

Note: ^(A) Joint Venture

^(B) Associate

SMC GLOBAL POWER HOLDINGS CORP.
155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
(Amounts in Thousand Pesos)

*(Figures based on
functional currency
audited separate financial
statements as of and for
the year ended
December 31, 2019)*

Unappropriated retained earnings, beginning		P842,651
Adjustments due to adoption of PFRS 16		(3,970)
Adjustments in previous year's reconciliation		(175,024)
Unappropriated retained earnings, as adjusted, beginning		663,657
Net income based on the face of Audited Financial Statements	P10,317,383	
Non-actual gain		
Unrealized foreign exchange gain, net of tax	(955,830)	
Sub-total	9,361,553	9,361,553
Net income actual/realized		10,025,210
Distributions paid during the year		(7,012,994)
Unappropriated retained earnings, as adjusted, ending		P3,012,216



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**INDEPENDENT AUDITOR'S REPORT ON
ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.
155 EDSA, Brgy. Wack-Wack
Mandaluyong City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 9, 2020.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies.

This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

R.G. MANABAT & CO.

A handwritten signature in black ink, appearing to read 'Darwin P. Virocel', written over a horizontal line.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
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Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116787
Issued January 2, 2020 at Makati City

March 9, 2020
Makati City, Metro Manila

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

LIQUIDITY RATIO

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

<i>(in Millions P)</i>	<i>Conventional</i>		<i>Adjusted ⁽¹⁾</i>	
	December 2019	December 2018	December 2019	December 2018
(A) Current Assets	138,619	88,615	138,619	88,615
(B) Current Liabilities	67,018	64,696	44,026	45,105
Current Ratio (A) / (B)	2.07	1.37	3.15	1.96

- ⁽¹⁾ Current portion of finance lease liabilities, in relation to IPPA Agreements with PSALM, is excluded from the total current liabilities as this current obligation on finance lease are pass-through charges billable to customers. As at December 31, 2019 and December 31, 2018, current portion of finance lease liabilities amounted to P22,992 million and P19,591 million, respectively.

SOLVENCY RATIO

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

Per relevant Loan Covenants of SMC Global Power

<i>(in Millions P)</i>	December 2019	December 2018
(A) Net Debt ⁽²⁾	217,523	269,349
(B) Total Equity ⁽³⁾	150,590	96,217
Net Debt-to-Equity Ratio (A) / (B)	1.44	2.80

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

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

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

<i>(in Millions P)</i>	<i>Conventional</i>		<i>Adjusted ⁽⁴⁾</i>	
	December 2019	December 2018	December 2019	December 2018
(A) Total Assets	557,119	493,850	394,918	326,463
(B) Total Equity	153,425	95,758	153,425	95,758
Asset-to-Equity Ratio (A) / (B)	3.63	5.16	2.57	3.41

⁽⁴⁾ Net carrying amount of the IPPA power plants, in relation to IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding finance lease liabilities. As at December 31, 2019 and December 31, 2018, net carrying amount of IPPA power plant assets amounted to P162,201 million and P167,387 million, respectively.

PROFITABILITY RATIO

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

<i>(in Millions P)</i>	December 2019	December 2018
(A) Net Income	14,364	8,300
(B) Total Equity	153,425	95,758
Return on Equity (A) / (B)	9.4%	8.7%

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

Per relevant Loan Covenants of SMC Global Power

<i>(in Millions P)</i>	December 2019	December 2018
(A) EBITDA ⁽⁵⁾	34,995	36,432
(B) Interest Expense ⁽⁶⁾	14,865	14,472
Interest Coverage Ratio (A) / (B)	2.35	2.52

⁽⁵⁾ Full year consolidated EBITDA (gross of PSALM payments and excluding amounts attributable to ring-fenced subsidiaries).

⁽⁶⁾ Full year consolidated interest expense (excluding amounts attributable to ring-fenced subsidiaries).

OPERATING EFFICIENCY

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

	Year Ended December 31	
<i>(in GWh)</i>	2019	2018
(A) Current Period Offtake Volume	28,112	23,864
(B) Prior Period Offtake Volume	23,864	17,227
Volume Growth [(A / B) – 1]	17.8%	38.5%

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

	Year Ended December 31	
<i>(in Millions P)</i>	2019	2018
(A) Current Period Revenue	135,060	120,103
(B) Prior Period Revenue	120,103	82,791
Revenue Growth [(A / B) – 1]	12.5%	45.1%

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

	Year Ended December 31	
<i>(in Millions P)</i>	2019	2018
(A) Income from Operating Activities	35,954	33,174
(B) Revenues	135,060	120,103
Operating Margin (A) / (B)	26.6%	27.6%



SMC GLOBAL POWER

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

INTRODUCTION

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of SMC Global Power Holdings Corp. (“SMC Global Power” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) for the three-year period ended December 31, 2019. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as at December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019. All necessary adjustments to present fairly the Group’s consolidated financial position as at December 31, 2019 and the financial performance and cash flows for the year ended December 31, 2019, and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 7.50% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position.

- Philippine Interpretation of the International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:
 - *Prepayment Features with Negative Compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

- *Modification of Financial Liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following table:

<i>(In Millions)</i>	Years Ended December 31		
	2019	2018	2017
Revenues	P135,060	P120,103	P82,791
Cost of power sold	(91,758)	(80,819)	(53,826)
Selling and administrative expenses	(7,348)	(6,110)	(4,689)
Income from operations	35,954	33,174	24,276
Other income (charges):			
Interest expense and other financing charges	(19,721)	(17,616)	(13,244)
Interest income	1,586	661	461
Equity in net losses of associates and joint ventures	(391)	(471)	(40)
Others	4,199	(3,547)	2,944
Income before income tax	21,627	12,201	14,397
Income tax expense	(7,263)	(3,901)	(6,180)
Net income	14,364	8,300	8,217

2019 vs. 2018

Revenues

The Group's consolidated net revenues in 2019 reached P135,060 million, 12% or P14,957 million higher than last year's P120,103 million, reflecting the sale of power registering at 28,112 GWh in 2019 and 23,864 GWh in 2018. The increase was driven by: (i) the revenues contributed by the full-year generation from the 660 MW Masinloc Power Plant acquired on March 20, 2018, (ii) the revenues from the full-year operations of San Miguel Consolidated Power Corporation's ("SMCPC") Davao Greenfield Power Plant Unit 2 and of SMC Consolidated Power Corporation's ("SCPC") Limay Greenfield Power Plant Unit 3, which commenced commercial operations on February 26, 2018 and March 26, 2018, respectively, (iii) the additional revenues from SCPC's Unit 4 which started commercial operations on July 26, 2019, (iv) the increase in revenues of South Premiere Power Corp. ("SPPC") brought by higher plant dispatch of Ilijan Power Plant due to higher Meralco nominations coupled with higher average realization price, and partly offset by (v) the decline in revenues of San Miguel Energy Corporation ("SMEC") on account of lower average realization price for its bilateral sales, and (vi) the decline in spot sales volume of the Group.

Cost of Power Sold

Cost of power sold likewise increased by 14% or P10,939 million, from P80,819 million in 2018 to P91,758 million in 2019. The increase was attributable mainly to the following: (i) costs incurred by the Masinloc Power Plant during its full-year operations in 2019, (ii) higher costs incurred from the full-year operations of the Davao Greenfield Power Plant Unit 2 and Limay Greenfield Power Plant Unit 3, with a combined capacity of 300 MW, (iii) costs incurred for the five-month operations of the SCPC's Unit 4, (iv) higher spot purchases of Masinloc Power Partners Co. Ltd. ("MPPCL"), SMEC and SCPC, and (v) higher energy fees due to longer operating hours resulting from lower outages of the Sual Power Plant and higher average natural gas price for the Ilijan Power Plant.

Selling and Administrative Expenses

Selling and administrative expenses increased by 20% or P1,238 million, from P6,110 million in 2018 to P7,348 million in 2019. The increase was due mainly to: (i) full-year operations of Masinloc Power Plant (acquired in March 2018), (ii) higher personnel expenses, and (iii) contributions to registered donee institutions for various programs on education and environment.

Income from Operations

As a result, consolidated income from operations grew by 8% or P2,780 million, from last year's P33,174 million to P35,954 million in 2019.

Other Income (Charges)

Interest expense and other financing charges increased by 12% or P2,105 million, from P17,616 million in 2018 to P19,721 million in 2019, due mainly to higher interest expense recognized on: (i) the long and short-term borrowings obtained by SMC Global Power to partially finance the Masinloc acquisition and to fund the capital expenditures of Mariveles Power Generation Corporation ("MPGC") and its battery energy storage system ("BESS") projects, (ii) project financing of SCPC and SMCP, (iii) existing long-term borrowings of MPPCL, and partially offset by (iv) lower interest expense on the Independent Power Producer Administrator ("IPPA") entities' finance lease liabilities.

Interest income increased by 140% or P925 million, from P661 million in 2018 to P1,586 million in 2019, resulting from higher average balance of cash and cash equivalents with the net proceeds received from the issuances of the P30,000 million fixed rate bonds and US\$1,300 million Senior Perpetual Capital Securities ("SPCS") by SMC Global Power in 2019.

Equity in net losses of associates and joint ventures posted lower losses by P80 million during the current year from the operations of Angat Hydropower Corporation ("AHC").

Other income significantly increased due primarily to the net foreign exchange differential, recognized on the Group's US dollar-denominated liabilities, which made a complete turnaround from the P5,316 million loss in 2018 to P2,840 million gain in 2019, as a result of the appreciation of the Philippine peso against the US dollar this year by P1.94 (from P52.58 to P50.64) as compared to the depreciation last year by P2.65 (from P49.93 to P52.58).

Income Before Income Tax

As a result of the foregoing factors, income before income tax substantially increased by 77% or P9,426 million, from P12,201 million in 2018 to P21,627 million in 2019.

Income Tax Expense

Income tax expense increased by 86% or P3,362 million, from P3,901 million in 2018 to P7,263 million in 2019. The net increase mainly resulted from the following: (i) higher provision for deferred income tax expenses recognized by the IPPA entities on the temporary differences of their monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (“PSALM”) over the finance lease liability-related expenses, particularly on foreign exchange differential, (ii) higher deferred income tax expenses of MPPCL, SCPC and SMCPCL due to movements on their temporary differences such as foreign exchange translations and capitalized borrowing costs, and (iii) lower provision for current income tax due mainly to the decline of the operating income of SMEC.

Net Income

Consequently, the consolidated net income of the Group grew by 73% or P6,064 million, from P8,300 million in 2018 to P14,364 million in 2019.

2018 vs. 2017

Revenues

Revenues for the year 2018 increased by 45% or P37,312 million, from P82,791 million in 2017, reflecting the sale of 17,227 GWh of power, to P120,103 million in 2018, reflecting the sale of 23,864 GWh of power. The increase in revenue was mainly driven by (i) revenues contributed by the newly acquired Masinloc Power Plant, (ii) additional revenues from the commercial operations of SCPC’s Limay Greenfield Power Plant Units 1, 2 and 3 (starting in May 2017, September 2017 and March 2018, respectively) and SMCPCL’s Davao Greenfield Power Plant Units 1 and 2 (starting in July 2017 and February 2018, respectively), (iii) additional contracted customers of San Miguel Electric Corp. (“SMELC”), and (iv) higher average prices for Sual and Ilijan bilateral and spot offtake volumes.

Cost of Power Sold

Cost of power sold likewise increased by 50% or P26,993 million, from P53,826 million in 2017 to P80,819 million in 2018. The increase was attributable mainly to the following: (i) inclusion of cost of power sold incurred by the newly acquired Masinloc Power Plant which became a subsidiary of SMC Global Power only in March 2018, (ii) costs incurred by SMCPCL and SCPC due to the start of commercial operations of its respective power plants, and (iii) higher power distribution costs incurred by Retail Electricity Supplier-licensed companies (“RES”), SMELC and SCPC, due to increase in its customers.

Selling and Administrative Expenses

Selling and administrative expenses increased by 30% or P1,421 million, from P4,689 million in 2017 to P6,110 million in 2018. The increase was due mainly to the operating expenses incurred by the newly acquired Masinloc entities and additional professional fees incurred for legal and financial advisory services rendered by third parties, who were engaged by SMC Global Power for the acquisition of SMCGP Masin Pte. Ltd. (“SMCGP Masin”, formerly Masin-AES Pte. Ltd.), SMCGP Transpower Pte. Ltd. (“SMCGP Transpower”, formerly AES Transpower Private Ltd.) and SMCGP Philippines, Inc. (“SPHI”, formerly AES Philippines Inc.) (collectively referred to as the “Masinloc Group”) in March 2018.

Income from Operations

As a result of the foregoing, consolidated income from operations ended 37% or P8,898 million higher, from P24,276 million in 2017 to P33,174 in 2018.

Other Income (Charges)

Interest expense and other financing charges increased by 33% or P4,372 million, from P13,244 million in 2017 to P17,616 million in 2018 due to the following: (i) higher interests recognized by SMC Global Power on its redenominated loans and additional long-term borrowings obtained to finance its acquisition of the Masinloc Group, (ii) higher financing charges of SCPC since the start of the commercial operations of its Limay Greenfield Power Plant Units 1, 2 and 3, which were previously capitalized during the aforesaid units' construction, and (iii) financing charges incurred by the newly acquired MPPCL from its short and long-term borrowings.

Interest income increased by 43% or P200 million, from P461 million in 2017 to P661 million in 2018, resulting from higher average balance of cash and cash equivalents.

Equity in net losses of associates and joint ventures was higher by P431 million, from P40 million in 2017 to P471 million in 2018, mainly on account of the significant net loss recognized by AHC in 2018 as against 2017 as a result of the unfavorable hydrological conditions and lower water allocations in the 4th quarter of 2018.

Other income (charges) declined mainly on account of the following: (i) net foreign exchange losses arising mainly from the Group's US dollar-denominated liabilities, increased by 741% or P4,684 million, from P632 million loss in 2017 to P5,316 million loss in 2018 on account of the significant depreciation of the Philippine peso against the US dollar in 2018 (from P49.93 to P52.58) as compared to 2017 (from P49.72 to P49.93) and the additional US dollar-denominated long-term borrowings, amounting to US\$1,350 million, obtained by SMC Global Power to partly finance the acquisition of the Masinloc Group in March 2018, and (ii) lower PSALM monthly fees reduction income by 51% or P1,669 million due to lower outages of Sual Power Plant in 2018 versus 2017.

Income Before Income Tax

As a result of the foregoing factors, income before income tax decreased by 15% or P2,196 million, from P14,397 million in 2017 to P12,201 million in 2018.

Income Tax Expense

Income tax expense declined by 37% or P2,279 million, from P6,180 million in 2017 to P3,901 million in 2018, primarily because of lower deferred income tax expense arising from the temporary differences related to the IPPA entities' finance lease liability-related expenses and higher deferred income tax benefit from the unrealized foreign exchange losses recognized for 2018.

Net Income

Nonetheless, the consolidated net income of the Group was slightly higher by 1% or P83 million, from P8,217 million in 2017 to P8,300 million in 2018.

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

1. POWER GENERATION

2019 vs. 2018

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

In 2019, net generation of 6,748 GWh at 77% net capacity factor rate was 10% higher than last year mainly due to higher operating hours and lower outages of the Sual Power Plant in 2019 as compared to 2018. In 2018, outages were mainly attributable to the annual maintenance outage of Unit 1 for 56 days from September 1 to October 26, 2018 and maintenance outage of Unit 2 for the installation of main unit of transformer from January 18 to February 9, 2018. Total offtake volume likewise increased to 9,374 GWh from last year's 8,416 GWh on account of higher Meralco nominations and bilateral sales volume.

Net revenues of P40,994 million was 2% lower than last year's P41,641 million attributable mainly to lower average realization price for bilateral sales despite higher offtake volumes.

Operating income of P6,390 million was 36% lower than last year's P10,028 million on account of lower average realization prices for bilateral sales and higher average cost of replacement power purchases supplied to bilateral customers.

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

The net generation of Ilijan Power Plant for 2019 grew by 4% attributable to higher plant dispatch as a result of high demand in the market, caused by the unexpected outages of other power stations during the year, despite the plant's higher outages in 2019. In 2019, Block 1 combustor inspection was conducted from September 21 to October 10 and planned major inspection of Block 2 was conducted from July 25 to August 31.

Revenues of P38,251 million for the year ended December 31, 2019 was 7% higher than 2018. The increase was driven by higher offtake volume, which surged by 3% to 8,133 GWh in 2019, coupled with higher average spot and bilateral prices.

Consequently, operating income of P10,916 million in 2019 was 16% higher than the P9,390 million posted in 2018.

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

The San Roque Power Plant's net generation of 793 GWh, at 26% net capacity factor rate, for 2019 fell by 22% as compared to 1,018 GWh for 2018. This was attributable to low reservoir level at an average of 261 meters above sea level (masl) in 2019 vs 264 masl in 2018. In 2018, the power plant was tagged as a Must Run Unit for 20 days due to high water level resulting from frequent monsoons and typhoons. Total offtake volume of 1,187 GWh likewise decreased by 12% compared to last year.

Nevertheless, net revenues increased by 12% or P830 million, from P7,005 million in 2018 to P7,835 million in 2019, due to higher average realization price and increase in revenue from ancillary services by 58% in 2019.

The foregoing factors contributed to the improvement of operating income by 23% from P2,777 million in 2018 to P3,417 million in 2019.

d. SCPC, owner of the Limay Greenfield Power Plant

Unit 1, Unit 2 and Unit 3 of the Limay Greenfield Power Plant, with a capacity of 150 MW each, commenced commercial operations on May 26, 2017, September 26, 2017 and March 26, 2018, respectively, following the completion of the testing and commissioning phase and the issuance of a Provisional Authority to Operate (“PAO”) by the Energy Regulatory Commission (“ERC”). In July 26, 2019, Unit 4, with 150 MW capacity, commenced commercial operations following the completion of its testing and commissioning. The ERC also issued a Certificate of Compliance (“COC”) in favor of SCPC for its four units.

Total net generation of 3,464 GWh, at 86% net capacity factor rate, for 2019 was 37% higher than last year’s 2,529 GWh. This was due to the full-year operations of Unit 3 and five-month operations of Unit 4 in 2019. SCPC dispatched 1,898 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 2,433 GWh exceeded last year’s by 30% due to higher offtake volume sold to various customers, that were obtained to fully contract the capacity of Unit 3 and Unit 4, and as replacement power to SMEC and MPPCL.

For 2019, net revenues increased by 31% from P8,550 million last year to P11,174 million driven primarily by the higher offtake volume.

e. SMCP, owner of the Davao Greenfield Power Plant

Unit 1 and Unit 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 and a COC in favor of SMCP for its two units.

For the year 2019, a total of 1,908 GWh was generated by the plant at a capacity factor rate of 82%. This was 32% higher compared to last year due to the full-year operations of Unit 2 as well as the high demand during the summer season, notwithstanding the 14-day combined shutdown of Unit 1 and Unit 2 due to tube leak and the 6.9 magnitude earthquake experienced on December 15, 2019.

Net revenues at P10,942 million topped last year by 40% on account of additional bilateral customers and the increase in nominations and load following demand from its existing bilateral customers. This is 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 P4,130 million or 46% higher than last year.

f. MPPCL, owner of the Masinloc Power Plant

The Masinloc Power Plant operating Unit 1 and Unit 2, with a combined net capacity of 619 MW, contributed a total net generation of 4,252 GWh for 2019, 27% higher compared to last year's net generation of 3,349 GWh, for the period starting March 20, 2018 (the acquisition of the Masinloc Power Plant) to December 31, 2018.

As a result of the full-year operations of the Masinloc Power Plant, MPPCL registered an increase in its total offtake volume of 5,448 GWh by 38% (sold to distribution utilities and electric cooperatives), net revenues of P25,570 million by 32% (inclusive of ancillary revenues from its 10 MW BESS) and operating income of P4,587 million by 1%.

2018 vs. 2017

a. SMEC

Net generation for the year 2018 of 6,130 GWh, at 70% net capacity factor rate, was 13% higher than in 2017 of 5,422 GWh due to lower outage hours in 2018 as compared to 2017, when Sual Unit 2 was on prolonged shutdown (from June 14, 2017 to November 10, 2017) resulting from the failure of its generator transformer that was replaced in 2018. Total offtake volume likewise increased to 8,416 GWh in 2018 compared to 2017 balance of 8,388 GWh due to higher spot sales volume.

Net revenues for the year 2018 increased by 4% or P1,671 million, from P39,970 million in 2017 to P41,641 million in 2018. The increase was primarily due to higher average realization price driven by higher indices (NewCastle index, foreign exchange rates & US Consumer Price index).

On the other hand, operating income for the year 2018 dipped by 11% or P1,211 million, from P11,240 million in 2017 to P10,028 million in 2018. The decrease was attributable to the decline in offtake volume of Meralco as a result of the annual maintenance shutdown of Sual Unit 1 and the higher cost of replacement power purchases during the outages of Sual Unit 2 in 2018.

b. SPPC

Net generation of Ilijan Power Plant in 2018 of 7,768 GWh and total offtake volume of 7,888 GWh both declined by 5% compared to 2017. The decrease was mainly attributable to lower Meralco nominations and Ilijan Power Plant's dispatch due to the abundant power supply in the market coming from hydro power plants resulting from persistent monsoon rains and tropical storms from August 2018 to October 2018.

Despite the decline in net generation and offtake volumes, SPPC's net revenues of P35,893 million in 2018 was 6% higher than 2017 due mainly to the improvement in its average realization prices. Higher realization price in 2018 resulted from the increase in average spot selling prices, higher average pass-through gas price, and favorable average forex rates during the year.

Consequently, operating income of P9,390 million in 2018 improved by 11% against 2017.

c. SPDC

San Roque Power Plant's utilization in 2018, at 34% net capacity factor rate, increased compared to 2017 due to high water elevation resulting from persistent storms and rainfalls from August to October 2018. This resulted to increase in net generation and offtake volume by 48% and 31%, respectively.

Average realization price decreased by 12% due to decline in average WESM prices in 2018. Despite the decline in average realization price, net revenues in 2018 increased by 5% or P351 million, as well as operating income from P2,635 million in 2017 to P2,776 million in 2018, attributable to higher offtake volume by 316 GWh compared to 2017.

d. SCPC

Limay Greenfield Power Plant Unit 1, Unit 2 and Unit 3, with a combined capacity of 450 MW, started commercial operations on May 26, 2017, September 26, 2017 and March 26, 2018, respectively. Total net generation of the three units reached 2,529 GWh in 2018 as against the 786 GWh in 2017.

For the year 2018, net revenues were registered at P8,550 million while operating income amounted to P1,257 million. Compared to 2017, these were up by 245% or P6,071 million and 369% or P989 million, respectively. The increase was attributed mainly to the full-year operations of the power plant's Unit 1 and Unit 2 and the start of commercial operations of Unit 3 in March 2018.

e. SMCPCL

Unit 1 and Unit 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. Total net generation was 1,446 GWh and 339 GWh in 2018 and 2017, respectively, while the total offtake volume was 1,477 GWh and 337 GWh in 2018 and 2017, respectively.

Net revenues for the year 2018 was P7,827 million, an improvement by 311% or P5,923 million compared to 2017, while operating income amounted to P2,831 million, better by 389% or P2,252 million as against 2017. The increase was attributed mainly to the full-year operations of the power plant's Unit 1 and the start of commercial operations of Unit 2 in February 2018.

f. MPPCL

Following the acquisition of the Masinloc Group on March 20, 2018, the Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 619 MW, contributed a total net generation of 3,349 GWh for the period from March 20, 2018 to December 31, 2018.

Total offtake volume of 3,937 GWh was sold to distribution utilities and electric cooperatives. Net revenues and operating income registered at P19,435 million and P4,559 million, respectively.

2. RETAIL AND OTHER POWER-RELATED SERVICES

2019 vs. 2018

a. 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.

Total offtake volume of 2,028 GWh exceeded last year's 1,973 GWh by 3%. The increase was attributable to the following: (i) higher electricity requirements of existing customers, and (ii) additional contestable customers contracted in 2019. The average realization price, however, was lower due to downward adjustments to rates based on current indices. This led to the 10% decrease in net revenues in 2019 which registered at P10,567 million.

Operating income amounting to P71 million for 2019 still improved from the P68 million posted in 2018 buoyed mainly by the increase in offtake volume and better margin.

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

Net revenues of P3,511 million was 13% higher than last year's P3,108 million primarily driven by higher offtake volumes and increase in average selling prices due to higher pass-through generation costs.

On the other hand, operating loss of P365 million in 2019 further ballooned from the P59 million recognized in 2018 due primarily to the increase in cost of spot purchases.

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 2019, the total offtake volumes registered at 1,779 GWh. This was 135% higher than last year's 756 GWh due to higher bilateral sales from additional contestable customers. Net revenues increased by 120% from P3,945 million in 2018 to P8,675 million in 2019 as offtake volume increased.

d. MPPCL, RES

MPPCL has various retail sale agreements.

On account of the full-year contribution of MPPCL (acquired in March 2018) and additional contestable customers in 2019, the total offtake volume increased by 779% from 42 GWh in 2018 to 369 GWh in 2019, while net revenues and operating income, amounting to P591 million and P381million, increased by 132% and 289%, respectively.

2018 vs. 2017

a. 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 1,973 GWh in 2018 was 61% higher compared to 1,224 GWh in 2017. The increase was attributable to higher electricity requirements of existing customers and additional 32 contestable customers contracted in 2018. This resulted to 44% increase in net revenues in 2018 which registered at P11,698 million.

Higher volume and improved margin, to cover costs and operating expenses, allowed SMELC to post an operating income amounting to P68 million in 2018, an improvement from the P10 million posted in 2017.

b. APEC

Net revenues of P3,108 million in 2018 was 11% higher than the P2,792 million posted in 2017. The increase was driven mainly by higher offtake volume by 47 GWh and offset by the decrease in average selling price due to lower passed-through generation cost.

Consequently, operating loss of P59 million in 2018 was 58% lower compared to the P139 million reported in 2017.

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 Power Plant.

For the year 2018, total offtake volume registered at 756 GWh while net revenues and operating income amounted to P3,945 million and P1,313 million, respectively.

d. MPPCL-RES

MPPCL has various retail sale agreements.

For the period starting March 20, 2018 up to December 31, 2018, the total offtake volume sold to contestable customers registered at 42 GWh while net revenues and operating income amounted to P255 million and P98 million, respectively.

III. FINANCIAL POSITION

A. MAJOR DEVELOPMENTS IN 2019

INVESTMENTS

- *Additional capital infusion in Mariveles Power Generation Corporation ("MPGC")*

On January 25, 2019, SMC Global Power subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing SMC Global Power's ownership interest in MPGC from 49% to 74%. SMC Global Power then subscribed to an additional 58,000,000 common shares out of the proposed increase in the authorized capital stock of MPGC at the subscription price of P100 per share, or total subscription amount of P5,800 million on September 6, 2019, when the increase of the authorized capital stock of MPGC was approved by the Philippine Securities and Exchange Commission ("SEC") on the same date.

As at December 31, 2019, SMC Global Power paid P6,530 million of the total subscriptions. The additional capital infusion will finance in part the power plant project of MPGC.

Following these several investments and change in ownership interest in MPGC from 49% in 2018 to 90% in 2019, SMC Global Power has obtained control over MPGC and has started consolidating MPGC as at January 25, 2019.

LONG-TERM DEBT

- *Availment of loan to finance capex/project*

San Miguel Consolidated Power Corporation ("SMCPC")

On July 31, 2019, SMCPC drew the remaining P978 million from a P21,300 million, 12-year Omnibus Loan and Security Agreement ("OLSA") with a syndicate of local banks dated August 9, 2018. The loan is subject to a fixed interest rate of 6.5077% and payable in quarterly installments up to August 2030. Proceeds of the loan were used mainly to finance the remaining payables from the construction works for the Davao Greenfield Power Plant.

Masinloc Power Partners Co. Ltd ("MPPCL")

On January 11, 2019 and November 22, 2019, MPPCL drew US\$35 million (P1,824 million) and US\$40 million (P2,032 million), respectively, from its US\$525 million Omnibus Expansion Facility Agreement (OEFA) dated December 1, 2015 to finance the ongoing construction of the additional 335 MW (gross capacity; Masinloc Power Plant Unit 3) coal-fired plant within the existing facilities of MPPCL. 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 long-term debt*

In 2019, SMC Global Power, MPPCL, SMCPC and SCPC have paid a total of P12,407 million of its outstanding long-term debts, pursuant to the terms and conditions of their respective facility agreements.

FIXED-RATE PESO-DENOMINATED BONDS

- *Shelf-registration of P60,000 million worth of fixed-rate Peso-denominated bonds by SMC Global Power and issuance of P30,000 million bonds*

On March 29, 2019, the Philippine SEC approved the shelf-registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global Power.

On April 24, 2019, SMC Global Power issued and listed on the Philippine Dealing & Exchange Corp. ("PDEX") the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million. The Bonds were issued 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 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 SMC Global Power for partial refinancing of existing loan obligations and/or re-denomination of US dollar-denominated obligations (remaining US\$150 million term loan, used for Masinloc acquisition, and US\$120 million short-term loan), investments in power-related assets and for payment of transaction-related fees, costs and expenses.

SENIOR PERPETUAL CAPITAL SECURITIES

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

On April 25, 2019, SMC Global Power issued US\$500 million SPCS (the "Original Securities") at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS were listed in the Singapore Exchange Securities Trading Limited ("SGX-ST") on April 26, 2019. The net proceeds of the Original Securities were used for the redemption of the US\$300 million Undated Subordinated Capital Securities ("USCS") issued in May 2014 on November 7, 2019, and will be applied by SMC Global Power for repayment of indebtedness and for general corporate purposes, including capital expenditures and investments in power-related assets.

On July 3, 2019, SMC Global Power issued an additional US\$300 million SPCS (the "Additional Securities") at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25, 2019 to (and excluding) July 3, 2019. The Additional Securities are consolidated into and form a single series with the Original Securities issued in April 2019, bringing its total securities to US\$800 million (the "Securities"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the SGX-ST on July 4, 2019. The net proceeds of the Additional Securities will be applied by SMC Global Power for general corporate purposes, investments in power-related assets and repayment of indebtedness.

On November 5, 2019, SMC Global Power issued US\$500 million SPCS (the "2nd Original Securities"), at an issue price of 100%, with an initial rate of distribution of 5.95% per annum. The 2nd Original Securities was listed in the SGX-ST on

November 6, 2019. The net proceeds from the issue of 2nd Original Securities will be applied by SMC Global Power for the development of BESS projects and for general corporate purposes.

B. MAJOR DEVELOPMENTS IN 2018

INVESTMENTS

- Acquisition of Subsidiaries, including the MPPCL Assets

On March 20, 2018, SMC Global Power acquired 51% and 49% equity interests in SMCGP Masin from AES Phil Investment Pte. Ltd. ("AES Phil") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as "SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3; Units 1, 2 and 3 are collectively referred to as the "Masinloc Power Plant"), and the 10 MW BESS, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans is constructing the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of the Group.

As part of the sale, SMC Global Power also acquired SMCGP Transpower, and SPHI. SMCGP Transpower was a subsidiary of The AES Corporation which provided corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provided energy marketing services to MPPCL.

With the acquisition by SMC Global Power of SMCGP Masin, SMCGP Transpower and SPHI (the "Transaction"), the Group aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for the Group to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction will result in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction was US\$1,900 million (equivalent to P98,990 million). The transaction was financed through the following:

- a) Availment by SMC Global Power of a US\$700 million (P36,351 million) floating interest rate term loan.

This loan is divided into Facility A Loan amounting to US\$200 million maturing on March 12, 2021 and Facility B Loan amounting to US\$500 million maturing on March 13, 2023. The loans are subject to repricing based on LIBOR plus spread.

- b) Availment by SMC Global Power of US\$500 million (P25,965 million) floating interest rate term loan maturing in March 2023.

In September and October 2018, SMC Global Power partially paid US\$350 million of the US\$500 million term loan.

- c) US\$650 million Redeemable Perpetual Securities (RPS) issued by SMC Global Power and subscribed to by its parent company, SMC; and

- d) US\$150 million (P7,790 million) advanced by SMC to SMC Global Power.

On August 17, 2018, SMC Global Power paid the US\$150 million advanced by SMC.

- *Acquisition of 60% (Non-controlling Interest) in Alpha Water and Realty Services Corp. ("Alpha Water")*

On July 13, 2018, Prime Electric Generation Corporation, a wholly-owned subsidiary of SMC Global Power, acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total consideration of US\$9.95 million (equivalent to P532 million). Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant Complex in Zambales Province is located.

REDENOMINATION OF FOREIGN CURRENCY DEBT

- *Issuance of P15,000 Million Fixed Rate Peso-denominated Bonds by SMC Global*

On August 17, 2018, SMC Global Power issued and listed on the PDEX peso-denominated fixed-rate bonds amounting to P15,000 million (the 'Series G Bonds'). The Series G Bonds have interest rate equivalent to 6.75% per annum and will be due in 2023.

The proceeds from the issuance were used to refinance/redenominate existing US dollar denominated obligations, pay-off outstanding shareholder advances obtained for the acquisition of Masinloc, for investments in power-related assets and payment of transaction-related fees, costs and expenses.

AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS

- *SCPC*

On January 31, 2018, SCPC drew P2,000 million from the P44,000 million OLSA with various local banks dated June 22, 2017 to finance the construction of the 2 x 150 MW Limay Greenfield Power Plant (Phase II, Units 3 and 4).

In 2018, SCPC has partially paid a total of P1,050 million to the first tranche of the P44,000 million loan drawn in June 2017, pursuant to the terms and conditions of the OLSA.

- *MPPCL*

On July 6, 2018 and October 8, 2018, MPPCL has drawn a total of US\$120 million from its US\$525 million OEFA dated December 1, 2015, to finance the construction of the Masinloc Power Plant Unit 3. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

- *SMCPC*

On August 17, 2018, SMCPC drew P20,322 million from the P21,300 million OLSA with various local banks dated August 9, 2018. The proceeds were used for the partial payment of shareholder advances, repayment in full of the P5,930 million short-term loan used to fund the design, construction and operations of the 2 x 150 MW Davao Greenfield Power Plant, and partial financing of the remaining works for the project and payment of transaction-related fees and expenses.

- *SMC Global Power*

On December 17, 2018, SMC Global Power availed a US\$120 million short-term loan from a local bank to finance its additional capital infusion in MPGC.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2019 vs. 2018

The Group's consolidated total assets as at December 31, 2019 amounted to P557,119 million, higher by 13% or P63,269 million than the December 31, 2018 balance of P493,850 million. The net increase is attributable to the following factors:

- a. Higher cash and cash equivalents was due mainly to: (i) the issuances by SMC Global Power of Fixed Rate Peso Bonds in April 2019 amounting to P30,000 million, and of SPCS in April, July and November 2019 amounting to US\$500 million, US\$300 million and US\$500 million, respectively (equivalent to P65,886 million, net of transaction costs), (ii) additional US\$75 million drawn by MPPCL from its OEFA credit facility (equivalent to P3,857 million), and (iii) P978 million drawn by SMCPC from its OLSA credit facility, partly offset by: (iv) partial payments of long-term debts by SMC Global Power, MPPCL, SMCPC and SCPC (P12,407 million), (v) redemption in November 2019 of the US\$300 million USCS issued in May 2014 (P15,183 million), (vi) down payments to contractors of the Mariveles and BESS Projects (P5,903 million and P1,680 million, respectively), (vii) additions to property, plant and equipment (P10,117 million) and (viii) full settlement by SMC Global Power of its short-term loan (P6,257 million).
- b. Decrease in property, plant and equipment 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 the PFRS 16 (P167,387 million).
- c. Increase in other noncurrent assets was due mainly to: (i) down payments made contractors for the construction of the Mariveles Power Plant and BESS Projects (P7,583 million), and (ii) increase in MPPCL's restricted cash due to the remaining proceeds from the loan drawn in January and November 2019 (P1,525 million).

The Group's consolidated total liabilities as at December 31, 2019 amounted to P403,694 million, 1% or P5,601 million slightly higher than the December 31, 2018 balance of P398,093 million. The major items accounting for the increase are as follows:

- a. Higher long-term debt due to issuance of P30,000 million Fixed Rate Peso Bonds by SMC Global Power in April 2019, additional loan drawn by MPPCL and SMCPCL in 2019 from its credit facilities to finance its projects, amounting to US\$75M (equivalent to P3,857 million) and P978 million, respectively, and offset by settlements of long-term borrowings of the Group amounting to P12,407 million and the effect of the foreign exchange gain, amounting to P2,829 million, recognized on the outstanding dollar-denominated debts of MPPCL and SMC Global Power.
- b. Full settlement of the US\$120 million (equivalent to P6,257 million) short-term loan of SMC Global Power using in part the proceeds of the P30,000 million Fixed Rate Peso Bonds.
- c. Increase in deferred tax liabilities by P5,018 million was primarily attributable to higher provision for deferred income tax expense recognized by the IPPA entities on the temporary differences arising from the foreign exchange translation of their US dollar-denominated finance lease liabilities.
- d. Increase in accounts payable and accrued expense was due mainly higher payables to suppliers and contractors recognized by MPGC for its Mariveles Power Plant Project (P2,122 million), remaining balance of GPII for its land acquisition (P1,231 million), and higher trade payables of MPPCL, SMCPCL, SCPC and SMEC (P1,555 million).
- e. Lower lease liabilities was due to payments made by the IPPA entities (P22,081 million) and offset by the additional lease liabilities recognized for the lease of land by SMCPCL, SCPC, MPGC and MPPCL as a result of the adoption of PFRS 16 (P4,296 million).

2018 vs. 2017

The Group's consolidated total assets as at December 31, 2018 amounted to P493,850 million, higher by 41% or P143,677 million than the December 31, 2017 balance of P350,173 million. The increase is attributable to the following factors:

- a. Consolidation of the assets of the Masinloc Group (effective March 20, 2018), totaling to P77,671 million, largely comprising of the Masinloc Power Plant and related facilities (P65,277 million), trade and other receivables (P3,609 million), inventories (P1,687 million), prepaid expenses and other current assets (P1,699 million) and other noncurrent assets (P3,306 million).
- b. Provisional goodwill amounting to P69,944 million recognized on the business combination arising from the acquisition of the Masinloc Group in March 2018.
- c. Higher trade receivables of SMEC, SPPC, SPDC, SMELC and SMCPCL by P5,210 million.

The Group's consolidated total liabilities as at December 31, 2018 amounted to P398,093 million, 37% or P107,685 million higher than the December 31, 2017 balance of P290,408 million. The major items accounting for the increase are as follows:

- a. Increase in long-term debt and other noncurrent liabilities was due to the (i) various long-term borrowings availed by SMC Global Power totaling to US\$1,350 million (P70,106 million) which were used to finance the Masinloc acquisition, (ii) loan availment of SMCPC amounting to P20,322 million from its OLSA, to refinance its short-term loan of P5,930 million and partially pay its shareholder advances of P13,561 million, (iii) issuance of P15,000 million fixed rate bonds by SMC Global Power to fully pay the US\$150 million (P8,100 million) shareholder advances and partially pay US\$350 million out of its US\$500 million term loan (P18,887 million, also funded in part by the P13,561 million received from SMCPC), (iv) additional P2,000 million loan drawn by SCPC from its P44,000 million credit facility to fund the Limay Phase II capital expenditures, and partly offset by (v) payment of finance lease liabilities by SMEC, SPPC and SPDC (P6,193 million).
- b. Consolidation of the liabilities of the Masinloc Group, totaling to P45,214 million, consisting mainly of: short and long-term debts (P38,973 million), trade and other current liabilities (P5,940 million), and other noncurrent liabilities P207 million.

Equity

The increase/decrease in equity is due to:

<i>(in Millions)</i>	December 31	
	2019	2018
Issuance of SPCS	P65,886	P -
Net income for the year attributable to equity holders of the Parent Company	14,370	8,282
Non-controlling interests	992	-
Issuance of RPS	-	32,751
Adjustment due to the adoption of PFRS 15	-	(49)
Adjustment due to the adoption of PFRS 16	(19)	-
Distributions paid to SPSC holders	(1,733)	-
Distributions paid to RPS holder	(2,097)	(1,621)
Distributions paid to USCS holders	(3,183)	(3,215)
Equity reserves	(3,186)	(144)
Redemption of USCS	(13,110)	-
Others	(253)	(12)
	P57,667	P35,992

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(in Millions)</i>	December 31		
	2019	2018	2017
Net cash flows provided by operating	P29,959	P15,259	P21,845
Net cash flows used in investing activities	(18,515)	(102,035)	(16,279)
Net cash flows provided by financing activities	40,283	86,529	1,527

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

Net cash flows used in investing activities are as follows:

<i>(in Millions)</i>	December 31		
	2019	2018	2017
Proceeds from sale of property, plant and equipment	P1	P -	P54
Acquisition of non-controlling interest	-	(532)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(97,334)	-
Additions to deferred exploration and development costs	(5)	(7)	(6)
Additions to investments and advances	(197)	(471)	(416)
Additions to intangible assets	(211)	(140)	(132)
Decrease (increase) in other noncurrent assets	(7,986)	2,499	(6,868)
Additions to property, plant and equipment	(10,117)	(6,050)	(8,911)

Net cash flows provided by financing activities are as follows:

<i>(in Millions)</i>	December 31		
	2019	2018	2017
Proceeds from issuance of SPCS	P65,886	P -	P -
Proceeds from long-term debt	34,835	106,026	77,000
Proceeds from short-term borrowings	9,179	41,937	113,419
Proceeds from issuance of RPS	-	32,751	-
Cash dividends paid to previous holder of non-controlling interest	-	(4)	-
Payment of stock issuance costs	(281)	(8)	(51)
Distributions paid to SPCS holders	(1,733)	-	-
Distributions paid to RPS holder	(2,097)	(1,621)	-
Distributions to USCS holders	(3,183)	(3,215)	(3,074)
Payments of long-term debt	(12,407)	(22,112)	(53,110)
Payments on redemption of USCS	(15,183)	-	-
Payments of short-term borrowings	(15,436)	(41,510)	(107,782)
Payments of finance lease liabilities	(19,297)	(25,715)	(24,875)

The effect of exchange rate changes on cash and cash equivalents amounted to (P284) million, P103 million and P71 million on December 31, 2019, 2018 and 2017, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The Parent Company's unappropriated retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P3,012 million and P668 million as at December 31, 2019 and 2018, respectively. The difference between the consolidated unappropriated retained earnings and the Parent Company's unappropriated retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

VI. 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 comparative period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

LIQUIDITY RATIO

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

(in Millions P)	<i>Conventional</i>		<i>Adjusted ⁽¹⁾</i>	
	December 2019	December 2018	December 2019	December 2018
(A) Current Assets	138,619	88,615	138,619	88,615
(B) Current Liabilities	67,018	64,696	44,026	45,105
Current Ratio (A) / (B)	2.07	1.37	3.15	1.96

- ⁽¹⁾ Current portion of finance lease liabilities, in relation to IPPA Agreements with PSALM, is excluded from the total current liabilities as this current obligation on finance lease are pass-through charges billable to customers. As at December 31, 2019 and December 31, 2018, current portion of finance lease liabilities amounted to P22,992 million and P19,591 million, respectively.

SOLVENCY RATIO

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

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	December 2019	December 2018
(A) Net Debt ⁽²⁾	217,523	269,349
(B) Total Equity ⁽³⁾	150,590	96,217
Net Debt-to-Equity Ratio (A) / (B)	1.44	2.80

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

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

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

(in Millions P)	<i>Conventional</i>		<i>Adjusted ⁽⁴⁾</i>	
	December 2019	December 2018	December 2019	December 2018
(A) Total Assets	557,119	493,850	394,918	326,463
(B) Total Equity	153,425	95,758	153,425	95,758
Asset-to-Equity Ratio (A) / (B)	3.63	5.16	2.57	3.41

- ⁽⁴⁾ Net carrying amount of the IPPA power plants, in relation to IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding finance lease liabilities. As at December 31, 2019 and December 31, 2018, net carrying amount of IPPA power plant assets amounted to P162,201 million and P167,387 million, respectively.

PROFITABILITY RATIO

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

(in Millions P)	December 2019	December 2018
(A) Net Income	14,364	8,300
(B) Total Equity	153,425	95,758
Return on Equity (A) / (B)	9.4%	8.7%

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

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	December 2019	December 2018
(A) EBITDA ⁽⁵⁾	34,995	36,432
(B) Interest Expense ⁽⁶⁾	14,865	14,472
Interest Coverage Ratio (A) / (B)	2.35	2.52

- ⁽⁵⁾ Full year consolidated EBITDA (gross of PSALM payments and excluding amounts attributable to ring-fenced subsidiaries).

- ⁽⁶⁾ Full year consolidated interest expense (excluding amounts attributable to ring-fenced subsidiaries).

OPERATING EFFICIENCY

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

	Year Ended December 31	
<i>(in GWh)</i>	2019	2018
(A) Current Period Offtake Volume	28,112	23,864
(B) Prior Period Offtake Volume	23,864	17,227
Volume Growth [(A / B) – 1]	17.8%	38.5%

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

	Year Ended December 31	
<i>(in Millions P)</i>	2019	2018
(A) Current Period Revenue	135,060	120,103
(B) Prior Period Revenue	120,103	82,791
Revenue Growth [(A / B) – 1]	12.5%	45.1%

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

	Year Ended December 31	
<i>(in Millions P)</i>	2019	2018
(A) Income from Operating Activities	35,954	33,174
(B) Revenues	135,060	120,103
Operating Margin (A) / (B)	26.6%	27.6%

VII. OTHER MATTERS

- Events After the Reporting Date

Issuance of US\$600 million SPCS by SMC Global Power

On January 21, 2020, SMC Global Power issued another US\$600 million SPCS (the "US\$600 million SPCS"), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The US\$600 million SPCS was listed on the SGX-ST on January 22, 2020. The net proceeds from the issue of the US\$600 million SPCS will be applied by SMC Global Power for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

- 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.
- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial year.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- 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.
- 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.
- 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.
- The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- 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 December 31, 2019. 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 P11,520 million as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects as at December 31, 2019 is approximately P38,696 million.

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)

	<i>Note</i>	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)

	<i>Note</i>	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														
Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Senior Perpetual Capital Securities	Equity Reserves				Retained Earnings	Total	Non-controlling Interests	Total Equity	
						Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve					
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	13	-	-	-	-	30,170,062	-	-	-	-	-	30,170,062	-	30,170,062
Share issuance costs		-	-	-	-	-	-	-	-	-	(14,950)	(14,950)	-	(14,950)
Distributions:														
Undated subordinated capital securities	13	-	-	-	-	-	-	-	-	-	(735,220)	(735,220)	-	(735,220)
Redeemable perpetual securities	13	-	-	-	-	-	-	-	-	-	(513,703)	(513,703)	-	(513,703)
Transactions with owners		-	-	-	-	30,170,062	-	-	-	-	(1,263,873)	28,906,189	-	28,906,189
As at March 31, 2020 (Unaudited)		P1,062,504	P2,490,000	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 (Audited)		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,843	P145,256	P8,052	(P1,844)	P31,901,779	P95,757,725	P -	P95,757,725
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16		-	-	-	-	-	-	-	-	-	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:

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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; non-interest bearing	Unsecured; no impairment
	2019	453,498	777,521	135,865	74,397		
	2020	-	-	-	1,894	1 year; non- interest bearing	Unsecured; no impairment
	2019	-	-	676	-		
Entities under Common Control	2020	729,038	303,699	672,899	4,442,978	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2019	3,036,199	1,667,408	633,217	4,294,378		
	2020	-	-	-	492	More than 1 year; non-interest bearing	Unsecured
	2019	-	-	-	492		
Associates	2020	296,968	-	339,945	29,351	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2019	1,253,058	9,416	369,603	29,813		
	2020	3,235	-	207,602	-	9 years; interest bearing	Unsecured; no impairment
	2019	13,624	-	213,753	-		
Joint Venture	2020	7,609	5,319	7,577	5,319	30 days; non-interest bearing	Unsecured; no impairment
	2019	30,281	312,233	2,472	-		
	2020	1,319	-	133,795	-	92 days; interest bearing	Unsecured; no impairment
	2019	5,367	-	132,402	-		
Associates of Entities under Common Control	2020	222,131	-	173,627	1,150	30 days; non-interest bearing	Unsecured; no impairment
	2019	933,917	-	199,301	1,150		
Others	2020	477,728	-	395,338	51,458	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2019	2,238,738	-	400,859	51,458		
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		

- Amounts owed by related parties consist of trade and other receivables and security deposits.
- 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").
- 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.
- 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	2019
	(Unaudited)	(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:

		March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	Note		
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 Regional 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:
- the settlement of the US\$360,000 short-term loan availed on May 8, 2017 from a local bank;
 - the funding of the acquisition of the Phase II Limay Greenfield Power Plant from Lumiere Energy Technologies Inc.; and
 - 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 SMCPG 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 SMCPG for the following purposes:
- 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, SMCP 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, SMCP 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, SMCP and MPPCL to secure any indebtedness, subject to certain exceptions.

The loans of SCPC and SMCP are secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC and SMCP as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC and SMCP. 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:

Year	Gross Amount		Peso	Debt Issue Costs	Net
	US Dollar	Peso Equivalent of US Dollar			
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%	4.7776% to 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	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
March 31, 2020 (Unaudited)				
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:

		March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	Note		
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			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
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			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired			
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.

Financial Liabilities

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

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

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

The Group's derivative 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.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

At each reporting date, the Group assesses whether 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.

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps

As at March 31, 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 Philippine Department of Energy ("DOE"), ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

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

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

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

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

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

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

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

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

MPPCL filed on January 22, 2020, while SMEC, SPPC, SPDC, SPI, and Petron Corporation filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the SC. In its petition, the ERC appealed the CA Decision of November 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 Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order dated October 19, 2015, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to 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 cyclicity 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.

COVER SHEET
For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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

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

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M	e	t	r	o		M	a	n	i	l	a																		

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

702-4500

Mobile Number

N/A

No. of Stockholders

8

Annual Meeting (Month / Day)

June / 1st Tuesday

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Paul Bernard D. Causon

Email Address

pcauson@smcgph.sanmiguel.com.ph

Telephone Number/s

702-4500

Mobile Number

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

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 SMCP 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 SMCP 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 SMCP'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 SMCP 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 SMCP; 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. SMCPCL, 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. SMCP, 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

2020 vs. 2019

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 SMCPG 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 SMCPG 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 SMCP 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 SMCP 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 SMCP and SCPC as a result of the adoption of PFRS 16 (P1,283 million).

Equity

The increase in equity is due to:

<i>(in Millions)</i>	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:

<i>(in Millions)</i>	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:

<i>(in Millions)</i>	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:

<i>(in Millions)</i>	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

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

<i>(in Millions P)</i>	Conventional		Adjusted ⁽¹⁾	
	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

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

Per relevant Loan Covenants of SMC Global Power

<i>(in Millions P)</i>	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

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

<i>(in Millions P)</i>	<i>Conventional</i>		<i>Adjusted ⁽⁴⁾</i>	
	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.

PROFITABILITY RATIO

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

<i>(in Millions P)</i>	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

<i>(in Millions P)</i>	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

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

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

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

<i>(in Millions P)</i>	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%

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

<i>(in Millions P)</i>	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%

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 cyclicity 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.

2019 PERFORMANCE APPRAISAL

I. Audit and Risk Oversight Committee Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the category Quality and Integrity of the Corporation’s Financial Statements and Financial Reporting Process, comprised of five questions, the average rating given by the members of the Audit and Risk Oversight Committee is 4.9;
- b. under the category Effectiveness of the Corporation’s Internal Control Systems, comprised of sixteen questions, the average rating given by the members of the Audit and Risk Oversight Committee is 4.9;
- c. under the category Independence and Performance of the Corporation’s Internal and External Auditors, comprised of sixteen questions, the average rating given by the members of the Audit and Risk Oversight Committee is 5;
- d. under the category Compliance by the Corporation with Accounting Standards, Legal and Regulatory Requirements, including Corporation’s Disclosure Policies and Procedures, comprised of three questions, the average rating given by the members of the Audit and Risk Oversight Committee is 4.9; and
- e. under the Category Evaluation of Management’s Process to Assess and Manage the Corporation’s Enterprise Risk Issues, comprised of six questions, the average rating given by the members of the Audit and Risk Oversight Committee is 5.

II. Corporate Governance Committee Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the category Oversight Responsibilities in Corporate Governance Development and Implementation, comprised of six questions, the average rating given by the members of the Corporate Governance Committee is 4.8;
- b. under the category Recommendation of Continuous Education and Training, comprised of two questions, the average rating given by the members of the Corporate Governance Committee is 5;
- c. under the category Effectiveness of the Nomination, Election and Employment Process of the Corporation, comprised of five questions, the average rating given by the members of the Corporate Governance Committee is 5;

- d. under the category Transparency of Executive Remuneration, comprised of four questions, the average rating given by the members of the Corporate Governance Committee is 4.9;
- e. under the category Reporting Process, comprised of one question, the average rating given by the members of the Corporate Governance Committee is 5; and
- f. under the category Performance of Other Activities, comprised of one question, the average rating given by the members of the Corporate Governance Committee is 5.

III. Related Party Committee Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the category Identification and Review of Related Party Transactions, comprised of three questions, the average rating given by the members of the Corporate Governance Committee is 5;
- b. under the category Periodic Disclosure and Review of Related Party Transactions, comprised of four questions, the average rating given by the members of the Corporate Governance Committee is 5; and
- c. under the category Performance of Other Activities, comprised of one question, the average rating given by the members of the Corporate Governance Committee is 4.4.

IV. Internal Board Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the category Fulfillment of the Board's Key Responsibilities, comprised of nine questions, the average rating given by the members of the Board is 4.8;
- b. under the category Recommendation of Board-Management Relationship, comprised of four questions, the average rating given by the members of the Board is 5;
- c. under the category Effectiveness of of Board Processes and Meetings, comprised of nine questions, the average rating given by the members of the Board is 4.8; and
- d. under the category Individual Performance of Board Members, comprised of nine questions, the average rating given by the members of the Board is 4.9.

V. Management Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the criteria on the confidence of the Board of the Management's qualifications, the average rating given by Management is 5;
- b. under the criteria on provision of complete, adequate, and timely information of Management to the board about the matters to be taken up during their meetings, the average rating given by Management is 5;
- c. under the criteria on Management's strategies to implement and execute the approved plans, goals and targets and is satisfied in the Management's ability to perform its responsibilities in the best interest of the Company, the average rating given by Management is 5;
- d. under the criteria on the establishment and maintenance of Management of an adequate, effective, and efficient internal control framework and functional and effective risk management system that provides a systematic process for the identification of risks and assessment of their potential impact, the average rating given by Management is 4.8;
- e. under the criteria on the promptness of the reply of Management to the Internal Auditor's findings and recommendations, the average rating given by Management is 5;
- f. under the criteria on the formulation by Management of rules and procedures on financial reporting and internal controls, the average rating given by Management is 5; and
- g. under the criteria on efficiency of Management in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation, promptness of Management in reporting and communicating to the Board any risk exposures and risk management activities, and addressing the same, the average rating given by Management is 5.

VI. Chief Executive Officer Performance Assessment Results

For each criteria, the highest score is 5 and lowest is 1.

- a. under the criteria on the integrity of the President and Chief Executive Officer ("P/CEO"), the P/CEO gave himself a rating of 5;
- b. under the criteria on the ability of the P/CEO to clearly define, communicate, and implement the Company's vision, mission, values, and overall strategy, promote any organizational or stakeholder change in relation to the same, the P/CEO gave himself a rating of 5;

- c. under the category that the efficiency and effectiveness in the general supervision, administration and management of the P/CEO of the business of the Company, the P/CEO gave himself a rating of 5;
- d. under the criteria on the integration of the P/CEO of the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times, the P/CEO gave himself a rating of 5;
- e. under the criteria on the establishment by the P/CEO of general administrative and operating policies, and initiation and development of programs for management training and development, as well as executive compensation plans, the P/CEO gave himself a rating of 5;
- f. for each of the following functions performed by the P/CEO, the P/CEO gave himself a rating of 5:
 - (i) determination of the Company's strategic direction and formulation and implementation of its strategic plan on the direction of the business;
 - (ii) oversight of the operations of the Company and management of human and financial resources in accordance with the strategic plan;
 - (iii) possession of a good working knowledge of the Company's industry and market, including updates with regard to its core business purpose
 - (iv) direction, evaluation and guidance of work of the key officers of the Company;
 - (iv) prudent management of the Company's resources and maintenance of a proper balance of the same; and
 - (v) functioning as the link between internal operations and external stakeholders
- g. under the criteria on the accountability of the P/CEO for the Company's organization and procedural controls. the P/CEO gave himself a rating of 5.

**MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING
OF**

SMC GLOBAL POWER HOLDINGS CORP.

Held on 04 June 2019, 2:00 p.m.
at The Board Room, 8th Floor SMC Head Office Complex Building
40 San Miguel Avenue, Mandaluyong City

<u>PRESENT:</u>	<u>No. of Common Shares</u>
San Miguel Corporation (By Proxy)	1,250,000,500
Ramon S. Ang	500
Ferdinand K. Constantino	500
Aurora T. Calderon	500
Virgilio S. Jacinto	500
Jack G. Arroyo, Jr.	500
Consuelo M. Ynares-Santiago	500
Josefina Guevara-Salonga	500
Total Number of Shares Present:	1,250,004,000
Total Number of Shares Issued and Outstanding:	1,250,004,000
Percentage of shares present and voting	100%

ALSO PRESENT:

Elenita D. Go
Paul Bernard D. Causon
Ramon U. Agay
Harold M. Abrenica
Jose Mari R. Valte
Julie Ann B. Domino
Beatriz Irina Denise A. Garcia
Irene M. Cipriano

I. CALL TO ORDER

Mr. Ramon S. Ang, the Chairman of the Board, called the meeting of the stockholders to order and presided over the same. Atty. Virgilio S. Jacinto, the Corporate Secretary, recorded the minutes of the proceedings.

II. CERTIFICATION OF QUORUM AND VOTING PROCEDURE

Stockholders owning or representing 100% of the outstanding capital stock of the Corporation being present, in person or by proxy, the Corporate Secretary certified that a quorum existed for the valid transaction of business.

For each Agenda Item, a motion shall be made by any stockholder and when duly seconded by another shareholder (there being no objections from any stockholder) shall be declared as duly approved and carried by the all the stockholders present in the meeting. Should there be any objection from a stockholder, such objection shall be registered as a dissent to and a vote against the passage of the subject resolution. For purposes of election of the members of the Board of Directors, a stockholder may vote the number of common shares held in his name in the stock and transfer book of the Corporation and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle as among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Corporation multiplied by the total number of directors to be elected.

III. APPROVAL OF THE PREVIOUS MEETING MINUTES

The Minutes of the Annual Stockholders' Meeting held on 05 June 2018 was presented to the stockholders for approval.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders' Resolution No. 2019-06-04-01 **Approval of Previous Meeting Minutes**

"RESOLVED, as it is hereby resolved, that the stockholders approve the Minutes of the Annual Stockholders' Meeting held on 05 June 2018."

IV. APPROVAL OF THE 2018 AUDITED FINANCIAL STATEMENTS

Mr. Paul D. Causon, the Chief Finance Officer of the Corporation, presented to the Board the 2018 Audited Financial Statements, summarized as follows:

SMC Global Power increased its consolidated revenues in 2018 by 45% to ₱120.1 Billion due to the additional generation from the Masinloc Power Plant and the additional units of the Limay and Malita Power Plants.

The increase in the generating capacity is due to the improved in operations of the IPPA Power Plants particularly the lower outage hours of Sual Power Plant and better hydrological conditions of San Roque Power Plant and the additional capacity from Masinloc, Limay and Malita Power Plants which contributed over 974MW of additional capacity during the year. In addition, Masinloc also has a Battery Energy Storage with an installed capacity of 10MW.

Operating income ended 37% higher at ₱33.2 Billion while net income for 2018 amounted to ₱8.3 Billion which is 1% higher than prior year despite the ₱5.3 Billion in forex losses compared to last year's forex loss of ₱632 Million.

Total assets of the Group increased by 41% due mainly to the consolidation of Masinloc entities total assets comprising of the Masinloc Power Plant and related facilities, trade receivables and other assets; initial goodwill recognized on the aforesaid acquisition; and higher trade and other receivables of the Group.

Total liabilities increased by 37% due to net effect of the (i) availment of long-term debt to finance the Masinloc acquisition; (ii) project financing facility availed for the Malita Power Plant; (iii) issuance of peso fixed rate bonds by SMC Global Power to redenominate USD loans; and (iv) consolidation of Masinloc entities total liabilities; partly offset by the payment of finance lease liabilities by the IPPAs.

Total shareholder's equity reached ₱95.8 Billion, which was 60% higher than 2017 due to the net result of the issuance of redeemable perpetual securities to SMC to partially fund the Masinloc acquisition, net income for the year at ₱8.3 Billion and distributions paid to the holders of perpetual securities.

The 2018 Audited Financial Statements of the Corporation are included in the Definitive Information Statement provided to the stockholders.

The Chairman then proceeded with the open forum. After giving sufficient time and opportunity for any of the stockholders to ask questions, none of the stockholders asked any questions. As such, the Chairmand proceeded to entertain a motion to approve the 2018 Audited Financial Statements of the Corporation as presented.

Upon motion duly made and seconded, there being no objections, the following resolution was unanimously approved by the stockholders:

Stockholders' Resolution No. 2019-06-04-02
Approval of 2018 Audited Financial Statements

“**RESOLVED**, as it is hereby resolved, that the stockholders approve the Audited Financial Statements of the Corporation for the year ended 31 December 2018.”

V. ELECTION OF THE BOARD OF DIRECTORS

Atty. Jacinto presented to the stockholders the names of the nominees for election to the Board of Directors of the Corporation:

Ramon S. Ang
Ferdinand K. Constantino
Aurora T. Calderon
Virgilio S. Jacinto
Jack G. Arroyo, Jr. *(Independent Director)*
Consuelo M. Ynares-Santiago *(Independent Director)*
Josefina Guevara-Salonga *(Independent Director)*

Atty. Jacinto further explained that the Information Statement circulated to the stockholders provided the names of the nominees for election as independent directors of the Board of Directors and they are Jack G. Arroyo, Jr., Consuelo M. Ynares-Santiago and Josefina Guevara-Salonga. He likewise informed the stockholders that all the named independent directors comply with the mandatory requirements imposed by the Securities and Exchange Commission.

A motion was made to: (i) dispense with the balloting for the election of directors, (ii) for the above-named nominees be unanimously elected as directors of the Corporation for the ensuing year until their successors are elected and qualified, and (iii) that the votes of the stockholders present and represented by proxies be distributed and recorded accordingly.

Upon said motion being duly seconded, and there being no objections, stockholders unanimously approved the following resolution:

Stockholders' Resolution No. 2019-06-04-03
Election of the Board of Directors

“**RESOLVED**, as it is resolved, that the following be, as they are hereby are, elected as members of the Board of Directors of the Corporation, to serve as such for the ensuing year, until their successors are duly elected and qualified:

1. Ramon S. Ang
2. Ferdinand K. Constantino
3. Aurora T. Calderon
4. Virgilio S. Jacinto
5. Jack G. Arroyo, Jr. *(Independent Director)*
6. Consuelo M. Ynares-Santiago *(Independent Director)*
7. Josefina Guevara-Salonga *(Independent Director)."*

VI. RATIFICATION OF ALL ACTS AND PROCEEDINGS OF THE BOARD OF DIRECTORS AND CORPORATE OFFICERS

The Chairman presented to the stockholders the acts and proceedings of the Board of Directors and corporate officers for approval of the stockholders, as set out in the minutes of meetings of the Board of Directors and as disclosed in the Definitive Information Statement of the Corporation.

Upon motion duly made and seconded, there being no objections, the following resolution was unanimously approved by the stockholders:

Stockholders' Resolution No. 2019-06-04-04
Ratification of All Acts and Proceedings of the Board of Directors and Corporate Officers

"RESOLVED, as it is resolved, that all acts, proceedings and resolutions of the Board of Directors and the Corporate Officers of the Corporation since the date of the Annual Stockholders' Meeting held on 05 June 2018 up to the date of this meeting, as set out in the minutes of the meetings of the Board of Directors, be approved, confirmed and ratified."

VII. APPOINTMENT OF EXTERNAL AUDITORS

Upon motion duly made and seconded, there being no objections, the following resolution was unanimously approved by the stockholders:

Stockholders' Resolution No. 2019-06-04-05
Appointment of External Auditors

"RESOLVED, as it is resolved, that the accounting firm of R.G. Manabat & Co., be designated as external auditors of the Corporation for fiscal year 2019."

VIII. ADJOURNMENT

There being no other matters to be discussed, the meeting was adjourned.

The voting results for each Agenda Item is set out in the attached Annex "A" hereof.

ATTESTED BY:

RAMON S. ANG
Chairman

Certified Correct:

VIRGILIO S. JACINTO
Corporate Secretary

Voting Results of each Agenda Item of the
Annual Meeting of the Stockholders of
SMC Global Power Holdings Corp. held on 04 June 2019

Agenda Item	Percentage of Outstanding Shares Voted For the Approval of the Agenda Item
Approval of the Minutes of the Annual Stockholders Meeting held on 05 June 2018	100%
Approval of the 2018 Audited Financial Statements	100%
Election of the Board of Directors For each of Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, Virgilio S. Jacinto, Jack G. Arroyo, Jr., Consuelo M. Ynares-Santiago, and Josefina Guevara-Salonga	100%
Ratification of All Acts and Proceedings of the Board of Directors and Corporate Officers	100%
Appointment of External Auditors	100%

BOARD OF DIRECTORS ATTENDANCE SUMMARY

Directors’ Names	June 4, 2019	June 4, 2019	June 25, 2019	August 5, 2019	August 5, 2019	August 5, 2019	August 5, 2019	October 7, 2019	Nov. 4, 2019	Nov. 4, 2019	Nov. 4, 2019	January 7, 2020	March 9, 2020	March 9, 2020	March 9, 2020	March 9, 2020	May 12, 2020	May 12, 2020	May 12, 2020
	ASM	Org. Meeting	Special Board Meeting	Regular Board Meeting	AROC Meeting	CG Meeting	RPT Meeting	Special Board Meeting	Regular Board Meeting	AROC Meeting	CG Meeting	Special Board Meeting	Regular Board Meeting	AROC Meeting	CG Meeting	RPT Meeting	Regular Board Meeting	AROC Meeting	CG Meeting
Ramon S. Ang	✓	✓	✓	✓	N/A	N/A	N/A	✓	✓	N/A	N/A	✓	✓	N/A	N/A	N/A	✓	N/A	N/A
Ferdinand K. Constantino	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓	✓	N/A	✓	✓	✓	✓	N/A	✓	✓	✓	N/A	✓	✓	✓	N/A
Virgilio S. Jacinto	✓	✓	✓	✓	N/A	✓	N/A	✓	✓	N/A	✓	✓	✓	N/A	✓	N/A	✓	N/A	✓
Jack G. Arroyo, Jr.	✓	✓		✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Consuelo M. Ynares-Santiago	✓	✓		✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Josefina Guevara-Salonga	✓	✓		✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓

LEGEND:

ASM - Annual Stockholders’ Meeting

Org. Meeting - Organizational Meeting of the Board of Directors

AROC Meeting - Audit & Risk Oversight Committee Meeting

CG Meeting - Corporate Governance Committee Meeting

RPT Meeting - Related Party Transactions Committee Meeting