COVER SHEET

CS200801099

S. E. C. Registration Number

SMC GLOBAL POWER HOLDINGS CORP.

(Company's Full Name)

5th Floor, C5 Office Building Complex, #100 E. Rodriguez Jr. Ave. Bo. Ugong, Pasig City 1604 Metro Manila

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

Atty. Julie Ann B. Domino-Pablo	+632-53171000
Contact Person	Company Telephone Number

12	31	SEC Form 17-Q (2nd Quarter ended 30 June 2022)	06	1st Tues.
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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

1. For the quarterly period ended **June 30, 2022**

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

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

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

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

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

7. **5th Floor, C5 Office Building Complex,**
   #100 E. Rodriguez Jr. Ave., C5 Road, Bo. Ugong
   Pasig City 1604, Metro Manila **1604**
   Address of issuer's principal office Postal Code

8. **(632) 5317-1000**
   Issuer's telephone number, including area code

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

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

    P15 billion worth of Fixed Rate Bonds issued in July 2016
    P20 billion worth of Fixed Rate Bonds issued in December 2017
    P15 billion worth of Fixed Rate Bonds issued in August 2018
    P30 billion worth of Fixed Rate Bonds issued in April 2019
    P40 billion worth of Fixed Rate Bonds issued in July 2022

	Number of shares of stock and debt outstanding (as of June 30, 2022)
Common Shares	**1,250,004,000**
Consolidated Total Liabilities (in Thousands)	**P422,760,870**

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

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

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.
Yes [√] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [√] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2022 (with comparative figures as of December 31, 2021 and for the period ended June 30, 2021) and Selected Notes to the Consolidated Financial Statements are hereto attached as **Annex "A"**.

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

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

PART II - OTHER INFORMATION

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

SIGNATURES

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

Issuer	**SMC GLOBAL POWER HOLDINGS CORP.**
Signature and Title	**PAUL BERNARD D. CAUSON** Chief Finance Officer/ Authorized Signatory
Date	August 15, 2022
Signature and Title	**RAMON U. AGAY** Comptroller/ Authorized Signatory
Date	August 15, 2022

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND DECEMBER 31, 2021
(In Thousands)

	Note	**2022 (Unaudited)**	2021 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 21, 22*	**P38,181,116**	P67,690,151
Trade and other receivables - net	*8, 14, 21, 22*	**71,873,920**	47,272,302
Inventories		**14,401,907**	10,017,822
Prepaid expenses and other current assets	*21, 22*	**36,581,352**	31,489,892
Total Current Assets		**161,038,295**	156,470,167
Noncurrent Assets			
Investments and advances - net		**10,740,846**	10,838,846
Property, plant and equipment - net	*6, 9*	**281,803,846**	211,858,532
Right-of-use assets - net	*6, 10*	**108,839,245**	157,159,661
Deferred exploration and development costs		**725,294**	719,393
Goodwill and other intangible assets - net	*8*	**74,672,786**	72,943,146
Deferred tax assets		**2,155,428**	1,447,415
Other noncurrent assets	*21, 22*	**24,325,042**	24,287,040
Total Noncurrent Assets		**503,262,487**	479,254,033
		P664,300,782	P635,724,200
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*11, 21, 22*	**P25,319,625**	P1,529,970
Accounts payable and accrued expenses	*12, 14, 21, 22*	**73,238,640**	56,055,226
Lease liabilities - current portion	*6, 21, 22*	**18,435,323**	21,677,035
Income tax payable		**69,847**	24,754
Current maturities of long-term debt - net of debt issue costs	*13, 21, 22*	**51,029,325**	30,185,418
Total Current Liabilities		**168,092,760**	109,472,403
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*13, 21, 22*	**176,432,920**	192,736,025
Deferred tax liabilities		**22,160,314**	20,182,639
Lease liabilities - net of current portion	*6, 21, 22*	**50,288,871**	56,536,324
Other noncurrent liabilities	*21, 22*	**5,786,005**	5,068,211
Total Noncurrent Liabilities		**254,668,110**	274,523,199
Total Liabilities		**422,760,870**	383,995,602

Forward

	Note	2022 (Unaudited)	2021 (Audited)
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	*15*	**P1,250,004**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Senior perpetual capital securities		**167,767,364**	167,767,364
Redeemable perpetual securities		**32,751,570**	32,751,570
Equity reserves		**(1,537,083)**	(1,536,280)
Retained earnings		**37,850,614**	48,247,948
		240,572,469	250,783,106
Non-controlling Interests		**967,443**	945,492
Total Equity		**241,539,912**	251,728,598
		P664,300,782	P635,724,200

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

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

CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2022 AND 2021
(In Thousands, Except Per Share Data)

				For the Quarter Ended	
	Note	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)
REVENUES	*5, 14, 16*	**P102,580,734**	P60,279,015	**P59,544,677**	P32,913,135
COST OF POWER SOLD	*5, 14, 17*	**87,342,486**	40,833,283	**51,535,422**	23,102,987
GROSS PROFIT		**15,238,248**	19,445,732	**8,009,255**	9,810,148
SELLING AND ADMINISTRATIVE EXPENSES	*8, 9*	**2,488,116**	2,287,739	**1,329,982**	1,075,314
INCOME FROM OPERATIONS		**12,750,132**	17,157,993	**6,679,273**	8,734,834
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*6, 11, 13*	**(8,186,102)**	(9,204,405)	**(4,094,026)**	(4,609,203)
INTEREST INCOME	*7*	**438,298**	245,785	**221,474**	121,076
EQUITY IN NET LOSSES OF AN ASSOCIATE AND JOINT VENTURES		**(65,261)**	(125,443)	**(125,634)**	(162,179)
OTHER INCOME (EXPENSE) - Net	*18*	**(4,655,905)**	3,536,622	**(5,740,902)**	1,453,357
INCOME (LOSS) BEFORE INCOME TAX		**281,162**	11,610,552	**(3,059,815)**	5,537,885
INCOME TAX EXPENSE (BENEFIT)	*19*	**2,161,043**	(608,410)	**747,717**	1,095,690
NET INCOME (LOSS)		**(P1,879,881)**	P12,218,962	**(P3,807,532)**	P4,442,195
Attributable to:					
Equity holders of the Parent Company		**(P1,904,172)**	P12,238,440	**(P3,800,154)**	P4,451,537
Non-controlling interests		**24,291**	(19,478)	**(7,378)**	(9,342)
		(P1,879,881)	P12,218,962	**(P3,807,532)**	P4,442,195
Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company					
Basic/Diluted	*20*	**(P8.34)**	P4.33	**(P6.49)**	P0.94

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 JUNE 30, 2022 AND 2021
(In Thousands)

				For the Quarter Ended	
	Note	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)
NET INCOME (LOSS)		**(P1,879,881)**	P12,218,962	**(P3,807,532)**	P4,442,195
OTHER COMPREHENSIVE INCOME (LOSS)					
Item that will not be reclassified to profit or loss					
Equity reserve for retirement plan		**-**	(59)	**-**	-
Items that may be reclassified to profit or loss					
Gain on exchange differences on translation of foreign operations		**31,467**	578,859	**25,901**	223,912
Net gain (loss) on cash flow hedges	*22*	**(32,270)**	24,013	**(43,793)**	3,931
		(803)	602,872	**(17,892)**	227,843
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(803)**	602,813	**(17,892)**	227,843
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax		**(P1,880,684)**	P12,821,775	**(P3,825,424)**	P4,670,038
Attributable to:					
Equity holders of the Parent Company		**(P1,904,975)**	P12,841,253	**(P3,818,046)**	P4,679,380
Non-controlling interests		**24,291**	(19,478)	**(7,378)**	(9,342)
		(P1,880,684)	P12,821,775	**(P3,825,424)**	P4,670,038

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 JUNE 30, 2022 AND 2021
(In Thousands)

		Equity Attributable to Equity Holders of the Parent Company												
							Equity Reserves							
	Note	Capital Stock	Additional Paid-in Capital	Senior Perpetual Capital Securities	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2022 (Audited)		**P1,062,504**	**P2,490,000**	**P167,767,364**	**P32,751,570**	**P -**	**(P2,379,442)**	**P880,548**	**(P46,195)**	**P8,809**	**P48,247,948**	**P250,783,106**	**P945,492**	**P251,728,598**
Net income (loss)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,904,172)**	**(1,904,172)**	**24,291**	**(1,879,881)**
Other comprehensive income (loss) - net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**31,467**	**-**	**(32,270)**	**-**	**(803)**	**-**	**(803)**
Total comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**-**	**31,467**	**-**	**(32,270)**	**(1,904,172)**	**(1,904,975)**	**24,291**	**(1,880,684)**
Collection of subscription receivable	*15*	**187,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**187,500**	**-**	**187,500**
Stock issuance cost		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(136,553)**	**(136,553)**	**(2,340)**	**(138,893)**
Distributions:														
Redeemable perpetual securities	*15*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,052,137)**	**(1,052,137)**	**-**	**(1,052,137)**
Senior perpetual capital securities	*15*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,304,472)**	**(7,304,472)**	**-**	**(7,304,472)**
Transactions with owners		**187,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,493,162)**	**(8,305,662)**	**(2,340)**	**(8,308,002)**
As at June 30, 2022 (Unaudited)		**P1,250,004**	**P2,490,000**	**P167,767,364**	**P32,751,570**	**P -**	**(P2,379,442)**	**P912,015**	**(P46,195)**	**(P23,461)**	**P37,850,614**	**P240,572,469**	**P967,443**	**P241,539,912**
As at January 1, 2021, (Audited)		P1,062,504	P2,490,000	P132,199,732	P32,751,570	P13,823,499	(P1,621,661)	(P2,500,221)	(P59,057)	(P47,153)	P47,178,853	P225,278,066	P1,025,955	P226,304,021
Net income (loss)		-	-	-	-	-	-	-	-	-	12,238,440	12,238,440	(19,478)	12,218,962
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	578,859	(59)	24,013	-	602,813	-	602,813
Total comprehensive income (loss)		-	-	-	-	-	-	578,859	(59)	24,013	12,238,440	12,841,253	(19,478)	12,821,775
Issuance of senior perpetual capital securities	*15, 23*	-	-	28,217,773	-	-	-	-	-	-	-	28,217,773	-	28,217,773
Redemption of undated subordinated capital securities	*15, 23*	-	-	-	-	(13,823,499)	(758,001)	-	-	-	-	(14,581,500)	-	(14,581,500)
Distributions:														
Senior perpetual capital securities	*15*	-	-	-	-	-	-	-	-	-	(5,239,353)	(5,239,353)	-	(5,239,353)
Redeemable perpetual securities	*15*	-	-	-	-	-	-	-	-	-	(980,261)	(980,261)	-	(980,261)
Undated subordinated capital securities	*15*	-	-	-	-	-	-	-	-	-	(656,168)	(656,168)	-	(656,168)
Transactions with owners		-	-	28,217,773	-	(13,823,499)	(758,001)	-	-	-	(6,875,782)	6,760,491	-	6,760,491
As at June 30, 2021 (Unaudited)		P1,062,504	P2,490,000	P160,417,505	P32,751,570	P -	(P2,379,662)	(P1,921,362)	(P59,116)	(P23,140)	P52,541,511	P244,879,810	P1,006,477	P245,886,287

See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim 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 JUNE 30, 2022 AND 2021
(In Thousands)

	Note	**2022 (Unaudited)**	2021 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P281,162**	P11,610,552
Adjustments for:			
Interest expense and other financing charges	*6, 13*	**8,186,102**	9,204,405
Unrealized foreign exchange losses - net		**6,144,278**	251,009
Depreciation and amortization	*9, 10, 17*	**5,906,030**	5,579,138
Equity in net losses of an associate and joint ventures - net		**65,261**	125,443
Impairment losses on trade and other receivables	*8*	**30,857**	-
Retirement cost		**25,725**	23,649
Reversal of allowance on trade and other receivables	*8, 18*	**(11,462)**	(250,486)
Interest income	*7*	**(438,298)**	(245,785)
Operating income before working capital changes		**20,189,655**	26,297,925
Decrease (increase) in:			
Trade and other receivables - net		**(24,621,690)**	5,546
Inventories		**(4,382,695)**	(491,083)
Prepaid expenses and other current assets		**(6,011,539)**	(2,521,272)
Increase in:			
Accounts payable and accrued expenses		**17,738,417**	3,778,813
Other noncurrent liabilities and others		**762,784**	893,747
Cash generated from operations		**3,674,932**	27,963,676
Interest income received		**360,626**	249,370
Income taxes paid		**(394,431)**	(134,993)
Interest expense and other financing charges paid		**(8,919,735)**	(10,461,178)
Net cash flows provided by (used in) operating activities		**(5,278,608)**	17,616,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other noncurrent assets		**768,602**	2,451,287
Additions to deferred exploration and development costs		**(5,686)**	(1,355)
Additions to intangible assets		**(168,441)**	(69,198)
Additions to investments and advances		**(661,360)**	(420,469)
Advances paid to suppliers and contractors		**(4,138,480)**	(4,550,357)
Additions to property, plant and equipment	*9*	**(18,815,253)**	(11,452,114)
Net cash flows used in investing activities		**(23,020,618)**	(14,042,206)

Forward

	Note	**2022 (Unaudited)**	2021 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	*11, 23*	**P30,756,100**	P6,743,625
Proceeds from long-term debt	*13, 23*	**15,506,000**	21,885,000
Collection of subscription receivable	*15*	**187,500**	-
Proceeds from issuance of senior perpetual capital securities	*15*	**-**	28,217,773
Distributions paid to undated subordinated capital securities holders	*15*	**-**	(656,168)
Redemption of undated subordinated capital securities	*15, 23*	**-**	(14,581,500)
Payments of stock issuance costs		**(138,893)**	-
Distributions paid to redeemable perpetual securities holder	*15*	**(1,052,137)**	(980,261)
Distributions paid to senior perpetual capital securities holders	*15*	**(7,304,472)**	(5,239,353)
Payments of short-term borrowings	*11, 23*	**(7,564,200)**	(6,743,625)
Payments of lease liabilities	*6, 23*	**(14,903,050)**	(11,867,099)
Payments of long-term debts	*13, 23*	**(17,745,180)**	(13,210,294)
Net cash flows provided by (used in) financing activities		**(2,258,332)**	3,568,098
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,048,523**	1,145,515
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(29,509,035)**	8,288,282
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**67,690,151**	110,717,686
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*7*	**P38,181,116**	P119,005,968

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
June 30, 2022
(Amounts in Thousands)

						Past Due						
		Total		Current		1 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days
Trade	P	64,354,754	P	35,875,088	P	5,276,966	P	2,739,361	P	2,008,282	P	18,455,057
Non-trade		7,051,695		1,562,231		19,904		16,694		40,948		5,411,918
Amounts owed by related parties		3,157,172		2,352,803		231,602		10,261		10,164		552,342
Total		74,563,621	P	39,790,122	P	5,528,472	P	2,766,316	P	2,059,394	P	24,419,317
Less allowance for impairment losses		2,689,701										
Net	P	71,873,920										

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

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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

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

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

2. Basis of Preparation

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

The interim consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 12, 2022.

Basis of Measurement

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership	
	June 30, 2022	December 31, 2021
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Co. (SPDC)	**100**	100
SMC PowerGen Inc.	**100**	100
SMC Consolidated Power Corporation (SCPC) *(a)*	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) *(b)*	**100**	100
Central Luzon Premiere Power Corp.	**100**	100
Lumiere Energy Technologies Inc.	**100**	100
PowerOne Ventures Energy Inc. (PVEI) *(c)*	**100**	100
Prime Electric Generation Corporation (PEGC) *(d)*	**100**	100
Oceantech Power Generation Corporation (OPGC)	**100**	100
Masinloc Power Partners Co. Ltd. (MPPCL) *(e)*	**100**	100
SMCGP Philippines Energy Storage Co. Ltd. (SMCGP Philippines Energy) *(f)*	**100**	100
Premiere Energy Resources, Inc. (formerly Masinloc Energy Resources Inc. [MERI]) *(g)*	**100**	100
Power Ventures Generation Corporation (PVGC) *(d)*	**100**	100
TopGen Energy Development Inc.	**100**	100
Universal Power Solutions, Inc. (UPSI)	**100**	100
Mariveles Power Generation Corporation (MPGC) *(h)*	**92**	92
Everest Power Development Corporation	**100**	100
SMC Global Light and Power Corp.	**100**	100
Prestige Power Resources Inc.	**100**	100
Reliance Energy Development Inc.	**100**	100
Ascend Power Resources Inc.	**100**	100
Converge Power Generation Corp.	**100**	100
EnergyCore Resources Inc.	**100**	100
Strategic Energy Development Inc.	**100**	100
Excellent Energy Resources Inc. (EERI)	**100**	100

Forward

	Percentage of Ownership	
	June 30, 2022	December 31, 2021
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp.	**100**	100
SMC Power Generation Corp. (SPGC) [(i)]	**100**	100
Coal Mining		
Daguma Agro-Minerals, Inc. [(j)]	**100**	100
Sultan Energy Phils. Corp. [(j)]	**100**	100
Bonanza Energy Resources, Inc. [(j)]	**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. [(j)]	**100**	100
SMCGP Transpower Pte. Ltd.	**100**	100
SMCGP Philippines Inc.	**100**	100
Dewsweeper Industrial Park, Inc.	**100**	100
Soracil Prime Inc. [(k)]	**100**	100

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

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

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

(d) On June 2, 2022, the Parent Company acquired 50% effective ownership interests in Isabel AS Holdings Corp. (Isabel AS) and in Isabel Ancillary Services Co. Ltd. (IASCO) as joint ventures, through PEGC, which acquired 50% ownership interest in Isabel AS, the general partner of IASCO, and 1.38% in IASCO, and through PVGC, which acquired a 49.31% interest in IASCO as a limited partner.

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

(f) Indirectly owned by the Parent Company, through its wholly-owned subsidiaries PEGC and OPGC, and owner of the battery energy storage system (BESS) facility in Kabankalan, Negros Occidental. SMCGP Philippines Energy started its commercial operations on January 26, 2022 (Note 9).

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

(h) The Parent Company subscribed to additional unissued common shares of MPGC in December 2021, thereby increasing its ownership interest from 89.54% to 91.98%. Non-controlling interests represent the 7.71% and 0.31% held by Meralco PowerGen Corporation and by Zygnet Prime Holdings, Inc., respectively. It has not yet started commercial operations as at June 30, 2022.

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

(j) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as at June 30, 2022.

(k) Acquired on March 15, 2021.

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

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

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

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

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

Non-controlling interests include the interests not held by the Parent Company in MPGC as at June 30, 2022 and December 31, 2021.

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

3. Summary of Significant Accounting and Financial Reporting Policies

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

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

Amended Standards Adopted in 2022

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

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

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

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

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

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

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

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

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

  - replaced a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements;

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

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

The adoption of the amended standards did not have a material effect on the interim consolidated financial statements.

New and Amended Standards Not Yet Adopted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

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

Financial Assets

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

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

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

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

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

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

- how employees of the business are compensated; and

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

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

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

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

- prepayment and extension features; and

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

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

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

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

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

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

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

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

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value (Notes 7, 21 and 22).

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

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

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

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

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

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

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

The Group's derivative assets that are designated as cash flow hedge are classified under this category (Notes 21 and 22).

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

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

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

The Group's derivative assets that are not designated as cash flow hedge are classified under this category (Notes 21 and 22).

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

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

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

The Group's derivative liabilities that are not classified as cash flow hedge are classified under this category (Notes 21 and 22).

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

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

The Group's liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 6, 11, 12, 13, 21 and 22).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

Investments in Shares of Stock of an Associate 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 an associate 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 an associate 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 an associate 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.

Offsetting Financial Instruments

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

4. Use of Judgments, Estimates and Assumptions

In preparing these interim consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2021.

5. Segment Information

Operating Segments

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

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

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P41,612,105 and P23,385,376 for the periods ended June 30, 2022 and 2021, respectively, represents more than 10% of the Group's total revenues.

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

Operating Segments
Financial information about reportable segments follows:

For the Periods Ended June 30

	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2022 (Unaudited)	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)	**2022 (Unaudited)**	2021 (Unaudited)
Revenues												
External	**P83,449,240**	P50,143,442	**P19,037,881**	P10,065,383	**P -**	P -	**P93,613**	P70,190	**P -**	P -	**P102,580,734**	P60,279,015
Inter-segment	**10,103,636**	9,034,066	**4,453**	6,174	**-**	-	**622,085**	443,737	**(10,730,174)**	(9,483,977)	**-**	-
	93,552,876	59,177,508	**19,042,334**	10,071,557	**-**	-	**715,698**	513,927	**(10,730,174)**	(9,483,977)	**102,580,734**	60,279,015
Costs and Expenses												
Cost of power sold	**80,543,500**	41,801,456	**16,802,349**	8,055,708	**-**	-	**433,562**	318,333	**(10,436,925)**	(9,342,214)	**87,342,486**	40,833,283
Selling and administrative expenses	**1,869,529**	2,102,115	**478,101**	238,611	**4,779**	3,858	**940,940**	673,228	**(805,233)**	(730,073)	**2,488,116**	2,287,739
	82,413,029	43,903,571	**17,280,450**	8,294,319	**4,779**	3,858	**1,374,502**	991,561	**(11,242,158)**	(10,072,287)	**89,830,602**	43,121,022
Segment Result	**P11,139,847**	P15,273,937	**P1,761,884**	P1,777,238	**(P4,779)**	(P3,858)	**(P658,804)**	(P477,634)	**P511,984**	P588,310	**12,750,132**	17,157,993
Interest expense and other financing charges											**(8,186,102)**	(9,204,405)
Interest income											**438,298**	245,785
Equity in net losses of an associate and joint ventures											**(65,261)**	(125,443)
Other income (charges) - net											**(4,655,905)**	3,536,622
Income tax benefit (expense)											**(2,161,043)**	608,410
Consolidated Net Income (Loss)											**(P1,879,881)**	P12,218,962

As at and For the Periods Ended

	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)
Other Information												
Segment assets	**P507,436,677**	P496,862,462	**P50,037,264**	P13,927,745	**P895,549**	P736,789	**P127,556,354**	P110,153,274	**(P109,194,121)**	(P71,185,477)	**P576,731,723**	P550,494,793
Investments and advances - net	**10,048,117**	9,368,275	**215,715**	231,597	**-**	-	**295,990,345**	295,842,856	**(295,513,331)**	(294,603,882)	**10,740,846**	10,838,846
Goodwill and other intangible assets - net											**74,672,786**	72,943,146
Deferred tax assets											**2,155,428**	1,447,415
Consolidated Total Assets											**P664,300,783**	P635,724,200
Segment liabilities	**P257,036,611**	P238,452,748	**P35,058,778**	P8,126,374	**P1,006,035**	P842,509	**P33,086,608**	P5,490,372	**(P153,119,568)**	(P112,045,237)	**P173,068,464**	P140,866,766
Long-term debt - net											**227,462,245**	222,921,443
Income tax payable											**69,847**	24,754
Deferred tax liabilities											**22,160,314**	20,182,639
Consolidated Total Liabilities											**P422,760,870**	P383,995,602
Capital expenditures	**P13,965,670**	P39,274,510	**P4,884,073**	P -	**P3,434**	P -	**P105,415**	P420,597	**(P143,339)**	(P100,510)	**P18,815,253**	P39,594,597
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	**4,804,032**	9,541,894	**1,012,310**	1,699,272	**114**	-	**104,221**	165,396	**(14,647)**	(32,362)	**5,906,030**	11,374,200
Noncash items other than depreciation and amortization	**5,263,931**	3,609,404	**(319,251)**	(233,052)	**(11)**	(8)	**1,309,990**	(1,924,582)	**-**	-	**6,254,659**	1,451,762

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

6. Significant Agreements and Lease Commitments

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

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

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

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P9,742,743 and P9,417,358 for the periods ended June 30, 2022 and 2021, respectively (Note 17). SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305, which will expire on November 3, 2022 and January 25, 2023, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 23).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of “Interest expense and other financing charges” account in the interim consolidated statements of income. Interest expense amounted to P1,857,860 and P2,504,842 for the periods ended June 30, 2022 and 2021, respectively.

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

Subsequently, upon the request of SPPC, PSALM issued an Additional Leased Premises Certification for the parcels of land with an aggregate area of 24,116 square meters where the Ilijan switchyard is located.

On June 3, 2022, SPPC and PSALM executed a Deed of Sale for the transfer of control and ownership of the Ilijan Power Plant to SPPC following the end of its IPPA Agreement (Note 23). Consequently, the carrying amount of the Ilijan Power Plant was reclassified from "Right-of-use assets" account to “Property, plant and equipment” account in the consolidated statements of financial position (Notes 9 and 10).

The power plants under the IPPA lease arrangements with PSALM, presented under “Right-of-use assets” account in the consolidated statements of financial position, amounted to P100,901,051 and P151,827,880 as at June 30, 2022 and December 31, 2021, respectively (Note 10).

The total cash outflows amounted to P16,678,942 and P14,308,469 for the periods ended June 30, 2022 and 2021, respectively.

Maturity analysis of lease payments as at June 30, 2022 and December 31, 2021 are disclosed in Note 21.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Cash in banks and on hand		**P17,942,336**	P18,485,740
Short-term investments		**20,238,780**	49,204,411
	21, 22	**P38,181,116**	P67,690,151

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates. Interest income from cash and cash equivalents amounted to P397,191 and P237,563 for the periods ended June 30, 2022 and 2021, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Trade		**P64,354,754**	P37,096,420
Non-trade		**7,051,695**	9,723,627
Amounts owed by related parties	*14*	**3,157,172**	3,124,337
		74,563,621	49,944,384
Less allowance for impairment losses		**2,689,701**	2,672,082
	21, 22	**P71,873,920**	P47,272,302

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

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

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Balance at beginning of period		**P2,672,082**	P3,034,110
Impairment losses during the period		**30,857**	44,006
Cumulative translation adjustment		**(1,776)**	4,399
Reversal during the period	*18*	**(11,462)**	(410,433)
Balance at end of period		**P2,689,701**	P2,672,082

Impairment losses recognized in the interim consolidated statements of income under "Selling and administrative expenses" account amounted to P30,857 and nil for the periods ended June 30, 2022 and 2021, respectively. Certain trade and other receivables were collected and the related allowance for impairment losses recognized in prior years were reversed accordingly.

Non-trade receivables include SMEC receivables for WESM transactions as well as the cost of fuel, market fees and other charges related to the dispatch of the excess capacity of the Sual Power Plant. The issue on excess capacity is the subject of ongoing cases (Note 23).

On March 5, 2022, SMEC entered into a Settlement Agreement with Team (Philippines) Energy Corporation (TPEC) and TeaM Sual Corporation (TSC) that aims to resolve all pending disputes on the dispatch of the excess capacity of the Sual Power Plant, including the claims of TPEC and SMEC on historic imbalances arising from WESM transactions, cost of fuel, market fees and other charges. Pursuant to said agreement, SMEC, TPEC and TSC have agreed to resolve their conflicting positions, cause the dismissal of all ongoing cases (Note 23), and settle the historic imbalances and the corresponding amounts claimed relative to the excess capacity of the Sual Power Plant.

As of June 30, 2022, SMEC has collected and recognized a receivable from TPEC amounting to P574,474 and P2,055,373, respectively, in accordance with the Settlement Agreement. In addition, SMEC recognized as other intangible assets its full dispatch rights on the capacity of the Sual Power Plant amounting to P1,628,854. The noncurrent portion of the receivable amounting to P1,575,769 is included under “Other noncurrent assets”, particularly “Noncurrent receivables” account, in the consolidated statements of financial position.

9. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2022 and December 31, 2021

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress (CPIP)	Total
Cost						
January 1, 2021 (Audited)	P128,513,724	P13,159,019	P4,777,476	P3,861,451	P34,270,780	P184,582,450
Additions	527,220	342,780	339,283	4,803	38,380,511	39,594,597
Acquisition of a subsidiary	-	781,995	-	-	-	781,995
Reclassifications	2,619,673	(70,095)	641,642	5,102	(309,903)	2,886,419
Currency translation adjustments	4,287,195	31,999	199,017	186,554	151,201	4,855,966
December 31, 2021 (Audited)	135,947,812	14,245,698	5,957,418	4,057,910	72,492,589	232,701,427
Additions	618,074	13,141	57,753	-	18,126,285	18,815,253
Reclassifications	48,110,686	340,099	1,044,962	92,435	4,867,747	54,455,929
Currency translation adjustments	-	155	1,152	-	-	1,307
June 30, 2022 (Unaudited)	**184,676,572**	**14,599,093**	**7,061,285**	**4,150,345**	**95,486,621**	**305,973,916**
Accumulated Depreciation and Amortization						
January 1, 2021 (Audited)	11,678,212	444,324	720,724	191,642	-	13,034,902
Depreciation and amortization	5,248,687	196,429	401,056	114,162	-	5,960,334
Reclassifications	-	-	48,326	-	-	48,326
Currency translation adjustments	1,561,861	1,464	43,991	17,043	-	1,624,359
December 31, 2021 (Audited)	18,488,760	642,217	1,214,097	322,847	-	20,667,921
Depreciation and amortization	2,903,254	107,512	225,145	62,580	-	3,298,491
Reclassifications	(168,309)	-	195,722	-	-	27,413
Currency translation adjustments	-	119	1,152	-	-	1,271
June 30, 2022 (Unaudited)	**21,223,705**	**749,848**	**1,636,116**	**385,427**	**-**	**23,995,096**
Accumulated Impairment Losses						
January 1, 2021 (Audited)	-	-	132,111	-	-	132,111
Impairment	-	-	34,991	-	-	34,991
Currency translation adjustments	-	-	7,872	-	-	7,872
December 31, 2021 (Audited) and June 30, 2022 (Unaudited)	**-**	**-**	**174,974**	**-**	**-**	**174,974**
Carrying Amount						
December 31, 2021 (Audited)	P117,459,052	P13,603,481	P4,568,347	P3,735,063	P72,492,589	P211,858,532
June 30, 2022 (Unaudited)	**P163,452,867**	**P13,849,245**	**P5,250,195**	**P3,764,918**	**P95,486,621**	**P281,803,846**

June 30, 2021

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	CPIP	Total
Cost						
January 1, 2021 (Audited)	P128,513,724	P13,159,019	P4,777,476	P3,861,451	P34,270,780	P184,582,450
Additions	113,218	107,619	47,790	2,678	11,180,809	11,452,114
Acquisition of a subsidiary	-	779,505	-	-	-	779,505
Reclassifications	71,454	907	376,559	3,956	928,236	1,381,112
Currency translation adjustments	1,117,821	8,334	60,918	48,618	31,949	1,267,640
June 30, 2021 (Unaudited)	129,816,217	14,055,384	5,262,743	3,916,703	46,411,774	199,462,821
Accumulated Depreciation and Amortization						
January 1, 2021 (Audited)	11,678,212	444,324	720,724	191,642	-	13,034,902
Depreciation and amortization	2,589,928	91,875	140,665	58,529	-	2,880,997
Reclassifications	-	-	22,298	-	-	22,298
Currency translation adjustments	353,455	162	12,374	2,927	-	368,918
June 30, 2021 (Unaudited)	14,621,595	536,361	896,061	253,098	-	16,307,115
Accumulated Impairment Losses						
January 1, 2021 (Audited)	-	-	132,111	-	-	132,111
Currency translation adjustments	-	-	2,138	-	-	2,138
June 30, 2021 (Unaudited)	-	-	134,249	-	-	134,249
Carrying Amount						
June 30, 2021 (Unaudited)	P115,194,622	P13,519,023	P4,232,433	P3,663,605	P46,411,774	P183,021,457

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

b. CPIP pertains to the following:

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

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

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

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

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

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

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

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

		June 30	
	Note	**2022 (Unaudited)**	2021 (Unaudited)
Cost of power sold	*17*	**P3,058,352**	P2,704,908
Selling and administrative expenses		**240,139**	176,089
		P3,298,491	P2,880,997

Total depreciation and amortization recognized in the interim consolidated statements of income include amortization of capitalized interest and decommissioning and dismantling costs amounting to P129,290 and P106,421 for the periods ended June 30, 2022 and 2021, respectively. No impairment loss was recognized for periods ended June 30, 2022 and 2021.

The Group has borrowing costs amounting to P1,080,394 and P1,059,256, which were capitalized for the period ended June 30, 2022 and for the year ended December 31, 2021, respectively. The capitalization rate used to determine the amount of interest eligible for capitalization was 7.47% as at June 30, 2022 and December 31, 2021. The unamortized capitalized borrowing costs amounted to P8,894,732 and P7,943,628 as at June 30, 2022 and December 31, 2021, respectively (Note 13).

Reclassifications mainly pertain to the carrying amount of SPPC's power plant located in Ilijan, Batangas, which was reclassified from the "Right-of-use assets" account, following the expiration of its IPPA Agreement with PSALM and its turnover to SPPC, and application of advances to contractors against progress billings for capital projects in progress (Note 10).

As at June 30, 2022 and December 31, 2021, certain property, plant and equipment amounting to P124,605,436 and P127,318,347, respectively, are pledged as security for syndicated project finance loans (Note 13).

Certain fully depreciated property, plant and equipment with aggregate costs amounting to P4,598,476 and P4,460,275 as at June 30, 2022 and December 31, 2021, respectively, are still being used in the Group's operations.

10. Right-of-Use Assets

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

	Land	Buildings and Improvements	Power Plants	Total
Cost				
January 1, 2021 (Audited)	P5,556,227	P94,642	P167,387,089	P173,037,958
Additions	172,797	315,240	-	488,037
Remeasurement and others	(123,522)	-	-	(123,522)
Currency translation adjustments	(14,033)	-	-	(14,033)
December 31, 2021 (Audited)	5,591,469	409,882	167,387,089	173,388,440
Additions	2,711,942	40,837		2,752,779
Reclassification and others	33,206	-	(53,988,259)	(53,955,053)
June 30, 2022 (Unaudited)	**8,336,617**	**450,719**	**113,398,830**	**122,186,166**
Accumulated Depreciation and Amortization				
January 1, 2021 (Audited)	278,698	73,370	10,372,806	10,724,874
Depreciation and amortization	64,026	70,713	5,186,403	5,321,142
Remeasurement and others	182,763	-	-	182,763
December 31, 2021 (Audited)	525,487	144,083	15,559,209	16,228,779
Depreciation and amortization	38,136	37,388	2,458,567	2,534,091
Reclassification and others	104,047	-	(5,519,996)	(5,415,949)
June 30, 2022 (Unaudited)	**667,670**	**181,471**	**12,497,780**	**13,346,921**
Carrying Amount				
December 31, 2021 (Audited)	P5,065,982	P265,799	P151,827,880	P157,159,661
June 30, 2022 (Unaudited)	**P7,668,947**	**P269,248**	**P100,901,050**	**P108,839,245**

The carrying amount of the power plants under the IPPA lease arrangements with PSALM amounted to P100,901,051 and P151,827,880 as at June 30, 2022 and December 31, 2021, respectively (Note 6).

The carrying amount of MPPCL's land under lease arrangement amounted to P88,535 as at June 30, 2022 and December 31, 2021.

The combined asset retirement costs of SCPC, SMCPC, UPSI and MPPCL amounted to P559,461 and P588,594 as at June 30, 2022 and December 31, 2021, respectively.

The reclassification in 2022 mainly relates to the Ilijan Power Plant that was reclassified to "Property, plant and equipment" account following the expiration of the IPPA Agreement between SPPC and PSALM and its turnover to SPPC in June 2022 (Note 6).

11. Loans Payable

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Parent Company			
Philippine peso-denominated		**P13,500,000**	P -
Foreign currency-denominated		**10,995,000**	-
MPPCL			
Foreign currency-denominated		**824,625**	1,529,970
	21, 22	**P25,319,625**	P1,529,970

This account pertains to unsecured Philippine peso and US dollar-denominated loans obtained from various local financial institutions and a foreign financial institution. The interest rates applied ranged from 2.80% to 5.00% and 3.75% as at June 30, 2022 and December 31, 2021, respectively. These loans were secured to partially refinance maturing obligations, for working capital and for general corporate purposes.

Interest expense on loans payable amounted to P188,263 and P31,830 for the periods ended June 30, 2022 and 2021, respectively.

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

On July 8, 2022, the Parent Company availed a P5,000,000 fixed rate short-term loan from a local bank. Interest and principal repayment shall be made upon maturity in October 2022. The proceeds shall be used for general corporate purposes.

On August 10, 2022, the Parent Company fully paid its US$200,000 short-term loan pursuant to the facility agreement dated April 29, 2022.

12. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Trade		**P23,675,173**	P15,357,138
Non-trade		**32,800,942**	30,834,754
Output VAT		**11,420,341**	7,508,289
Withholding and other accrued taxes		**2,529,146**	370,176
Amounts owed to related parties	*14*	**1,570,092**	732,736
Accrued interest	*6, 11, 13*	**1,222,242**	1,226,302
Premium on option liabilities	*21, 22*	**20,479**	25,831
Derivative liabilities not designated as cash flow hedge	*21, 22*	**225**	-
		P73,238,640	P56,055,226

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

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

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

The methods and assumptions used to estimate the fair values of financial liabilities are discussed in Note 22.

13. Long-term Debt

Long-term debt consists of:

	Note	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)
Bonds			
Parent Company			
Peso-denominated:			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively		**P16,051,086**	P29,857,106
Fixed interest rate of 6.7500% maturing in 2023		**14,950,351**	14,929,804
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively		**19,934,513**	19,915,621
Fixed interest rate of 4.7575% and 5.1792% maturing in 2023 and 2026, respectively		**8,814,022**	8,807,704
		59,749,972	73,510,235
Term Loans			
Parent Company			
Peso-denominated:			
Fixed interest rate of 6.9265%, with maturities up to 2024		**14,278,078**	14,341,187
Fixed interest rate of 5.0000%, with maturities up to 2025		**4,907,218**	4,925,442
Foreign currency-denominated:			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2023		**27,395,400**	25,336,985
Floating interest rate based on LIBOR plus margin, maturing in 2026		**16,180,512**	14,948,743
Floating interest rate based on LIBOR plus margin, maturing in 2023		**2,715,457**	2,504,152
Floating interest rate based on LIBOR plus margin, maturing in 2024 (a)		**10,743,461**	-
Floating interest rate based on Secured Overnight Financing Rate (SOFR) plus margin, maturing in 2025 (b)		**5,392,575**	-
Subsidiaries			
Peso-denominated:			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (c)		**36,459,595**	37,626,133
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (d)		**16,524,079**	17,154,198
Foreign currency-denominated:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively		**24,896,330**	24,487,442
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030		**8,219,568**	8,086,926
		167,712,273	149,411,208
	21, 22	**227,462,245**	222,921,443
Less current maturities		**51,029,325**	30,185,418
		P176,432,920	P192,736,025

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

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

b. The amount represents the US$100,000 3-year term loan drawn by the Parent Company on May 24, 2022, from a facility agreement with a group of foreign banks executed on May 18, 2022. The loan is subject to a floating interest rate based on SOFR plus margin and will mature in May 2025.

   The proceeds were used for working capital requirements relating to expansion projects, for general corporate purposes, and payment of other transaction related fees, costs and expenses of the facility.

c. On March 28 and June 28, 2022, SCPC has partially paid a total of P1,205,000 of its P44,000,000, 12 year term loan, pursuant to the terms and conditions of its Omnibus Loan and Security Agreement (OLSA) with a syndicate of local banks.

d. The loan includes amount payable to Bank of Commerce (BOC), an associate of entities under common control, amounting to P2,518,528 and P2,615,936 as at June 30, 2022 and December 31, 2021, respectively (Note 14).

   On February 17 and May 17, 2022, SMCPC has partially paid a total of P648,372 of its P21,300,000, 12 year term loan, pursuant to the terms and conditions of its OLSA with a syndicate of local banks.

Unamortized debt issue costs amounted to P2,110,524 and P2,062,866 as at June 30, 2022 and December 31, 2021, respectively. Accrued interest amounted to P1,054,279 and P1,199,171 as at June 30, 2022 and December 31, 2021, respectively. Interest expense amounted to P6,301,273 and P6,280,758 (including P588,981 and P43,981, capitalized as part of CPIP, respectively) for the periods ended June 30, 2022 and 2021, respectively (Note 9).

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

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

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

The fair value of the Bonds, amounting to P62,114,110 and P78,768,298 as at June 30, 2022 and December 31, 2021, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 22).

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

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

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

As at June 30, 2022 and December 31, 2021, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Balance at beginning of period	**P2,062,866**	P2,134,901
Additions	**407,855**	527,832
Currency translation adjustments	**-**	20,879
Capitalized amount	**(110,499)**	(1,981)
Amortization	**(249,698)**	(618,765)
Balance at end of period	**P2,110,524**	P2,062,866

Repayment Schedule

The annual maturities of the long-term debts as at June 30, 2021 are as follows:

	Gross Amount				
Year	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Debt Issue Costs**	**Net**
July 1, 2022 to June 30, 2023	US$678,212	P37,284,732	P14,049,704	P305,111	P51,029,325
July 1, 2023 to June 30, 2024	81,185	4,463,145	46,798,224	333,567	50,927,802
July 1, 2024 to June 30, 2025	332,655	18,287,709	15,892,764	539,949	33,640,524
July 1, 2025 to June 30, 2026	334,125	18,368,522	11,717,844	500,666	29,585,700
July 1, 2026 to June 30, 2027	35,700	1,962,608	9,841,721	146,774	11,657,555
July 1, 2027 and thereafter	296,048	16,275,211	34,630,585	284,457	50,621,339
	US$1,757,925	**P96,641,927**	**P132,930,842**	**P2,110,524**	**P227,462,245**

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 21.

14. Related Party Disclosures

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

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

The following are the transactions with related parties and the outstanding balances as at June 30, 2022 (Unaudited) and December 31, 2021 (Audited):

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	**2022**	**P294,655**	**P359,444**	**P88,953**	**P175,581**	On demand or 30 days;	Unsecured;
	2021	399,320	721,640	92,027	18,228	non-interest bearing	no impairment
	2022	**-**	**-**	**289,418**	**-**	1 year;	Unsecured;
	2021	-	-	12,551	-	non-interest bearing	no impairment
Entities under Common Control	**2022**	**3,109,794**	**1,315,835**	**1,600,186**	**6,611,249**	On demand or 30 days;	Unsecured;
	2021	3,908,994	2,124,649	1,028,637	4,945,538	non-interest bearing	no impairment
	2022	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured
	2021	-	-	-	492	non-interest bearing	
Associates	**2022**	**484,399**	**8,512**	**964,287**	**29,846**	On demand or 30 days;	Unsecured;
	2021	1,999,770	10,954	1,238,266	29,570	non-interest bearing	no impairment
	2022	**3,531**	**-**	**114,385**	**-**	9 years;	Unsecured;
	2021	9,408	-	139,775	-	interest bearing	no impairment
Joint Venture	**2022**	**15,564**	**-**	**7,851**	**-**	30 days;	Unsecured;
	2021	29,732	1,299,496	3,985	155,292	non-interest bearing	no impairment
	2022	**2,698**	**-**	**157,618**	**-**	92 days;	Unsecured;
	2021	5,138	-	143,665	-	interest bearing	no impairment
	2022	**26,458**	**-**	**1,052,380**	**-**	10.5 years	Unsecured;
	2021	18,840	-	1,026,815	-	Interest bearing	no impairment
Associates and Joint Ventures	**2022**	**45,756**	**-**	**22,678**	**1,155**	30 days;	Unsecured;
of Entities under Common Control	2021	54,913	-	8,116	1,155	non-interest bearing	no impairment
	2022	**-**	**99,364**	**-**	**2,518,528**	12 years;	Secured
	2021	-	211,738	-	2,615,936	Interest bearing	
Others	**2022**	**2,241,859**	**-**	**619,298**	**51,604**	On demand or 30 days;	Unsecured;
	2021	2,488,888	-	574,430	51,604	non-interest bearing	no impairment
	2022	**P6,224,714**	**P1,783,155**	**P4,917,054**	**P9,388,455**		
	2021	P8,915,003	P4,368,477	P4,268,267	P7,817,815		

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

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance, services rendered, customers' deposits and subscriptions payable to OEDC (Note 12).

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

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

e. Amounts owed to an associate and joint venture of entities under common control pertains to an interest-bearing long-term loan of SMCPC to BOC, included as part of 'Long-term debt" account in the consolidated statements of financial position (Note 13). The loan is secured by certain property, plant and equipment as at June 30, 2022 and December 31, 2021 (Note 9).

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

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Short-term employee benefits	**P92,226**	P134,074
Retirement cost	**7,760**	15,520
	P99,986	P149,594

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

15. Capital Stock, Distributions and Redemption of Capital Securities

The Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1.00.

Capital stock consists of:

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable:		
Balance at beginning of year	**187,500**	187,500
Collection	**(187,500)**	-
Balance at end of period	**-**	187,500
	P1,250,004	P1,062,504

In April 2022, the Parent Company collected subscription receivable from SMC amounting to P187,500.

The number of shares subscribed is 1,250,004,000 common shares as at June 30, 2022 and December 31, 2021.

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

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

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

In February 2021, the Parent Company paid distributions amounting to P656,168 to holders of the US$300,000 USCS issued in August 2015.

Distributions to Redeemable Perpetual Securities (RPS) Holder

	June 30	
	2022 (Unaudited)	2021 (Unaudited)
March	**P520,305**	P492,375
June	**531,832**	487,886
	P1,052,137	P980,261

Distributions to SPCS Holders

	June 30	
	2022 (Unaudited)	2021 (Unaudited)
January	**P1,170,552**	P1,095,768
April	**3,650,736**	3,190,832
May	**1,041,250**	952,753
June	**1,441,934**	-
	P7,304,472	P5,239,353

In July 2022, the Parent Company paid distributions amounting to US$17,100 to holders of the US$600,000 issued in January 2020.

16. Revenues

Revenues consist of:

		June 30	
	Note	**2022 (Unaudited)**	2021 (Unaudited)
Sale of power:			
Power generation and trading		**P83,449,240**	P50,143,442
Retail and other power-related services		**19,037,881**	10,065,383
Other services		**93,613**	70,190
	5, 14	**P102,580,734**	P60,279,015

Revenues from other services mainly pertain to operations and maintenance services provided by a subsidiary to an entity under common control (Note 14).

17. Cost of Power Sold

Cost of power sold consist of:

		June 30	
	Note	**2022 (Unaudited)**	2021 (Unaudited)
Coal, fuel oil and other consumables	*14*	**P50,442,274**	P14,030,499
Power purchases		**19,360,473**	10,224,823
Energy fees	*6*	**9,742,743**	9,417,358
Depreciation and amortization	*9, 10*	**5,586,673**	5,360,101
Plant operations and maintenance, and other fees		**2,210,323**	1,800,502
	5	**P87,342,486**	P40,833,283

18. Other Income - net

Other income (charges) consist of:

		June 30	
	Note	**2022 (Unaudited)**	2021 (Unaudited)
Marked-to-market gain on derivatives	*22*	**P1,369,277**	P41,185
PSALM monthly fees reduction		**851,095**	3,348,269
Construction revenue		**68,632**	46,684
Reversal of allowance on other receivables	*8*	**11,462**	11,463
Construction cost		**(68,632)**	(46,684)
Foreign exchange gains (losses) - net	*21*	**(7,071,570)**	52,742
Miscellaneous income		**183,831**	82,963
		(P4,655,905)	P3,536,622

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

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

Miscellaneous income pertains mainly to management and shared services fees and rent income (Note 14).

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

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

	June 30	
	2022	2021
	(Unaudited)	(Unaudited)
Current	**P891,080**	P580,310
Deferred	**1,269,963**	1,963,196
Adjustments due to CREATE Act	**-**	(3,151,916)
	P2,161,043	(P608,410)

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

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

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

20. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is computed as follows:

	June 30	
	2022 (Unaudited)	2021 (Unaudited)
Net income (loss) attributable to equity holders of the Parent Company	**(P1,904,172)**	P12,238,440
Distributions for the period to:		
USCS holders	**-**	(218,722)
RPS holder	**(1,058,476)**	(980,803)
SPCS holders	**(7,458,985)**	(5,623,776)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(10,421,633)**	P5,415,139
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/Diluted Earnings (Loss) Per Share (a/b)	**(P8.34)**	P4.33

As at June 30, 2022 and 2021, the Parent Company has no dilutive debt or equity instruments.

The P8.34 negative basic/diluted earnings per common share resulted primarily from the interest costs and other financing charges (including distributions to perpetual capital securities) for the Group's various bridge-type financing activities undertaken to expedite the ongoing construction of its several power plant expansion projects intended to significantly increase the capacities of and modernize the existing power generation portfolio of the Group. These expansion projects, including, among others, the 1,000 MW Battery Energy Storage facilities, 600 MW Mariveles CFB Coal-fired Power Plant, 2 x 350 MW Masinloc Power Generation Units 4 and 5, and the 1,313.1 MW Batangas Combined Cycle Gas Power Plant, are expected to go into commercial operations in the next 4 to 5 years (Note 9). These projects are contracted or expected to be contracted to creditworthy offtakers such as Meralco and the National Grid Corporation of the Philippines, and should contribute significantly to the profitability of the Group following their commercial operations in the coming years.

21. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

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

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

June 30, 2022 (Unaudited)	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P38,181,116**	**P38,181,116**	**P38,181,116**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**71,028,280**	**71,028,280**	**71,028,280**	**-**	**-**	**-**
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	**946,431**	**946,431**	**946,431**	**-**	**-**	**-**
Derivative asset designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	**117,815**	**117,815**	**117,815**	**-**	**-**	**-**
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**3,636,817**	**4,196,474**	**579,774**	**159,815**	**1,599,406**	**1,857,479**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**7,191,043**	**7,191,043**	**5,250,269**	**591,589**	**10**	**1,349,175**
Financial Liabilities						
Loans payable	**25,319,625**	**25,804,110**	**25,804,110**	**-**	**-**	**-**
Accounts payable and accrued expenses (including Premium on option liabilities - current)*	**59,285,627**	**59,289,572**	**59,289,572**	**-**	**-**	**-**
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" account)	**225**	**225**	**225**	**-**	**-**	**-**
Long-term debt - net (including current maturities)	**227,462,245**	**271,814,908**	**63,045,915**	**60,124,146**	**91,060,774**	**57,584,073**
Lease liabilities (including current portion)	**68,724,194**	**78,381,808**	**21,666,287**	**21,974,467**	**23,906,382**	**10,834,672**
Other noncurrent liabilities (including current portion of Concession liability)	**4,784,034**	**4,834,532**	**8,400**	**243,057**	**4,082,070**	**501,005**

**Excluding statutory receivables and payables*

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

**Excluding statutory receivables and payables*

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

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

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

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

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

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

	Note	**June 30, 2022 (Unaudited)**	December 31, 2021 (Audited)
Cash and cash equivalents (excluding cash on hand)	*7*	**P38,179,007**	P67,688,162
Trade and other receivables - net*	*8*	**71,028,280**	47,223,910
Derivative assets not designated as cash flow hedge		**946,431**	111,932
Derivative assets designated as cash flow hedge		**117,815**	42,173
Noncurrent receivables		**3,636,817**	1,560,209
Restricted cash		**7,191,043**	4,430,396
		P121,099,393	P121,056,782

**Excluding statutory receivables*

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

	Financial Assets at Amortized Cost					
June 30, 2022 (Unaudited)	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P38,179,007**	**P -**	**P -**	**P -**	**P -**	**P38,179,007**
Trade and other receivables	**-**	**71,028,280**	**2,689,701**	**-**	**-**	**73,717,981**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**946,431**	**-**	**946,431**
Derivative asset designated as cash flow hedge	**-**	**-**	**-**	**-**	**117,815**	**117,815**
Noncurrent receivables (including current portion)	**-**	**3,636,817**	**-**	**-**	**-**	**3,636,817**
Restricted cash	**7,191,043**	**-**	**-**	**-**	**-**	**7,191,043**
	P45,370,050	**P74,665,097**	**P2,689,701**	**P946,431**	**P117,815**	**P123,789,094**

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

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

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

	June 30, 2022 (Unaudited)				December 31, 2021 (Audited)			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P35,789,760**	**P1,081,939**	**P2,308,517**	**P39,180,216**	P17,990,189	P1,074,987	P1,885,024	P20,950,200
Past due:								
1-30 days	**5,167,352**	**19,834**	**231,602**	**5,418,788**	4,601,818	185,891	500,031	5,287,740
31-60 days	**2,699,577**	**16,559**	**10,261**	**2,726,397**	1,748,212	215,610	40,776	2,004,598
61-90 days	**1,969,545**	**40,838**	**10,164**	**2,020,547**	1,504,672	14,848	31,752	1,551,272
Over 90 days	**18,409,476**	**5,410,215**	**552,342**	**24,372,033**	11,251,529	8,230,403	620,250	20,102,182
	P64,035,710	**P6,569,385**	**P3,112,886**	**P73,717,981**	P37,096,420	P9,721,739	P3,077,833	P49,895,992

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

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

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

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 41% and 39% of the Group's total revenues for the periods ended June 30, 2022 and 2021, respectively.

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

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

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

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

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

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

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

June 30, 2022 (Unaudited)	**< 1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P14,049,704**	**P46,798,224**	**P15,892,764**	**P11,717,844**	**P9,841,721**	**P34,630,585**	**P132,930,842**
Interest rate	**5.0000% to 7.7521%**	**4.7575% to 7.7521%**	**5.0000% to 7.7521%**	**6.2836% to 7.7521%**	**5.1792% to 7.7521%**	**6.2836% to 7.7521%**	
Foreign currency-denominated (expressed in Philippine peso)	**7,351,807**	**1,289,878**	**1,350,681**	**1,411,483**	**1,476,628**	**12,245,159**	**25,125,636**
Interest rate	**4.7776% to 5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	**5.5959%**	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**29,932,925**	**3,173,267**	**16,937,028**	**16,957,039**	**485,980**	**4,030,052**	**71,516,291**
Interest rate	**LIBOR/ SOFR + Margin**	**LIBOR/ SOFR + Margin**	**LIBOR/ SOFR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	
	P51,334,436	**P51,261,369**	**P34,180,473**	**P30,086,366**	**P11,804,329**	**P50,905,796**	**P229,572,769**

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P343,838 and P515,182 for the period ended June 30, 2022 and for the year ended December 31, 2021, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

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

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

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

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

- changes in the timing of the hedged transactions.

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

		June 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*7*	**US$336,650**	**P18,507,319**	US$582,496	P29,706,729
Trade and other receivables	*8*	**135,803**	**7,465,747**	236,449	12,058,685
		472,453	**25,973,066**	818,945	41,765,414
Liabilities					
Loans payable	*11*	**215,000**	**11,819,625**	30,000	1,529,970
Accounts payable and accrued expenses	*12*	**37,921**	**2,084,705**	590,308	30,105,121
Long-term debt (including current maturities)	*13*	**1,757,925**	**96,641,927**	1,495,230	76,255,235
Lease liabilities (including current portion)	*6*	**424,763**	**23,351,333**	762,458	38,884,578
Other noncurrent liabilities		**-**	**-**	67,749	3,455,137
		2,435,609	**133,897,590**	2,945,745	150,230,041
Net Foreign Currency-denominated Monetary Liabilities		**US$1,963,156**	**P107,924,524**	US$2,126,800	P108,464,627

The Group reported net gains (losses) on foreign exchange amounting to (P7,071,570) and P52,742 for the periods ended June 30, 2022 and 2021, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 18).

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

	US Dollar to Philippine Peso
June 30, 2022	**P54.975**
December 31, 2021	50.999
June 30, 2021	48.800
December 31, 2020	48.023

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

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
June 30, 2022 (Unaudited)	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P332,767)**	**(P253,475)**	**P332,767**	**P253,475**
Trade and other receivables	**(135,803)**	**(109,374)**	**135,803**	**109,374**
	(468,570)	**(362,849)**	**468,570**	**362,849**
Loans payable	**215,000**	**161,250**	**(215,000)**	**(161,250)**
Accounts payable and accrued expenses	**36,326**	**30,655**	**(36,326)**	**(30,655)**
Long-term debt (including current maturities)	**1,757,925**	**1,318,444**	**(1,757,925)**	**(1,318,444)**
Lease liabilities (including current portion)	**424,763**	**318,572**	**(424,763)**	**(318,572)**
	2,434,014	**1,828,921**	**(2,434,014)**	**(1,828,921)**
	P1,965,444	**P1,466,072**	**(P1,965,444)**	**(P1,466,072)**

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

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

Commodity Price Risk

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

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

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

Other Market Price Risk

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

Capital Management

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

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debts, SPCS, RPS and USCS (Note 13).

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

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

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

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

22. Financial Assets and Financial Liabilities

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

	June 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P38,181,116**	**P38,181,116**	P67,690,151	P67,690,151
Trade and other receivables - net*	**71,028,280**	**71,028,280**	47,223,910	47,223,910
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" accounts)	**946,431**	**946,431**	111,932	111,932
Derivative asset designated as cash flow hedge (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**117,815**	**117,815**	42,173	42,173
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**3,636,817**	**3,636,817**	1,560,209	1,560,209
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**7,191,043**	**7,191,043**	4,430,396	4,430,396
	P121,101,502	**P121,101,502**	P121,058,771	P121,058,771
Financial Liabilities				
Loans payable	**P25,319,625**	**P25,319,625**	P1,529,970	P1,529,970
Accounts payable and accrued expenses*	**59,285,627**	**59,285,627**	48,147,723	48,147,723
Derivative liabilities not designated as cash flow hedge (included under "Accounts payable and accrued expenses" accounts)	**225**	**225**	-	-
Long-term debt - net (including current maturities)	**227,462,245**	**236,175,386**	222,921,443	242,668,663
Lease liabilities (including current portion)	**68,724,194**	**68,724,194**	78,213,359	78,213,359
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**4,784,034**	**4,784,034**	4,146,692	4,146,692
	P385,575,950	**P394,289,091**	P354,959,187	P374,706,407

**Excluding statutory receivables and payables*

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

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

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

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

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

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.33% to 6.73% and 0.99% to 4.74% as at June 30, 2022 and December 31, 2021, respectively. Discount rates used for foreign currency-denominated loans range from 2.52% to 3.41% and 0.25% to 1.50% as at June 30, 2022 and December 31, 2021, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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

Derivative Financial Instruments and Hedge Accounting

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

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps

As at June 30, 2022 and December 31, 2021, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$60,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2023. As at June 30, 2022, the positive fair value of the call spread swaps, included under “Prepaid expense and other current assets” account amounted to P117,815. As at December 31, 2021, the positive fair value of the call spread swaps, included under “Other noncurrent assets” account amounted to P42,173.

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

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Beginning balance	**P8,809**	(P47,153)
Changes in fair value of derivatives	**75,642**	23,285
Amount reclassified to profit or loss:		
Interest expense and other financing charges	**13,588**	32,677
Foreign exchange losses - net (included under “Other income - net” account)	**(121,500)**	-
Ending balance	**(P23,461)**	P8,809

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the period ended June 30, 2022 and for the year ended December 31, 2021.

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$30,000 and US$50,000 as at June 30, 2022 and December 31, 2021, respectively. As at June 30, 2022, the negative fair value of these currency forwards, included under “Accounts payable and accrued expenses” account amounted to P225. As at December 31, 2021, the positive fair value of these currency forwards, included under “Prepaid expense and other current assets” account amounted to P49,775.

Commodity Swaps
The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary with various maturities in 2022 and 2023. 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 189,000 metric tons and 96,000 metric tons as at June 30, 2022 and December 31, 2021, respectively. The positive fair value of these commodity swaps, included under “Prepaid expense and other current assets” account amounted to P946,431 and P62,157 as at June 30, 2022 and December 31, 2021, respectively.

The Group recognized marked-to-market gains from freestanding derivatives amounting to P1,369,277 and P41,185 for the periods ended June 30, 2022 and 2021, respectively (Note 18).

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

	June 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Beginning balance	**P154,105**	P9,299
Net change in fair value of derivatives:		
Not designated as accounting hedge	**1,369,277**	278,397
Designated as accounting hedge	**75,642**	23,285
	1,599,024	310,981
Less fair value of settled instruments	**535,003**	156,876
Ending balance	**P1,064,021**	P154,105

Fair Value Measurements
The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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

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

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

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

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

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

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

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23. 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 (the "SC 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. The approval of the Energy Regulatory Commission ("ERC") in its December 9, 2013 order on the staggered imposition by Meralco of its generation rate for November 2013 from its consumers (the "December 9, 2013 ERC Order") prompted the filing of these consolidated petitions. 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 (the "Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, MPPCL and several generators as respondents to the case. On January 10, 2014, the SC issued an order treating the Counter-Petition as in the nature of a third party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the SC extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining the Philippine Electricity Market Corporation ("PEMC") and the generators from demanding and collecting the deferred amounts. In a Resolution dated April 22, 2014, the SC extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014.

In the Petition filed by special interest groups, the SC was made aware of the order of the ERC dated March 3, 2014 (the "March 3, 2014 ERC Order") (as defined and discussed under "*ERC Order Voiding WESM Prices*"), in which the ERC declared void the WESM prices during the November and December 2013 supply months and imposed regulated prices in their stead. The March 3, 2014 ERC Order likewise directed PEMC to: (a) calculate these "regulated prices" based on a formula identified by the ERC as representative of 2013 market prices under normalized conditions and (b) to collect the same from the WESM participants involved.

A decision was promulgated by the Supreme Court En Banc on August 3, 2021 (the "SC Decision") affirming the December 9, 2013 ERC Order and declaring as null and void the March 3, 2014 ERC Order. SMEC, SPPC, and SPDC however received a copy of the SC Decision through their counsels only on July 5, 2022, while MPPCL received the same on July 6, 2022.

On July 26, 2022, the special interest groups sought reconsideration of the SC Decision by filing separate Motions for Reconsideration where they prayed that the SC Petition be granted. The ERC likewise filed a Motion for Partial Reconsideration of the SC Decision and sought the reinstatement of the March 3, 2014 ERC Order, among others.

ii. ERC Order Voiding WESM Prices

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

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, which declared 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 ERC Order").

Subsequent orders were issued by the ERC setting the period for compliance of the March 3, 2014 ERC Order (collectively, the "2014 ERC Orders"). Based on these orders, SMEC and SPDC recognized a reduction in the sale of power while MPPCL, SPPC and SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

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

On June 26, 2014, SMEC, SPPC, SPDC and MPPCL appealed said ERC denial before the Court of Appeals ("CA") through a Petition for Review.

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

Motions for Reconsideration of the November 7, 2017 Decision and several other motions were filed by various intervenors, which were denied by the CA through its Omnibus Resolution dated March 29, 2019. The intervenors filed Petitions for Review on Certiorari before the SC, which were also denied by the SC through its resolutions dated September 11, 2019 and October 1, 2019. Entries of judgment have been issued by the SC certifying that the resolutions denying the Petitions for Review on Certiorari filed by various intervenors against SMEC, SPPC, SPDC and MPPCL, among others, have become final and executory.

The ERC and Meralco also filed separate Petitions for Review appealing the November 7, 2017 Decision and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, declaring the WESM prices for November and December 2013 void.

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

The ERC has also filed its Consolidated Reply to the comments on its petition dated November 18, 2020.

On August 3, 2021, a decision was rendered by the Supreme Court En Banc on a separate case (as discussed under "*TRO Issued to Meralco*") declaring the March 3, 2014 ERC Order as null and void. Considering that this decision of the Supreme Court En Banc ("SC Decision") covers the March 3, 2014 ERC Order, the difference between the actual Luzon WESM prices and the regulated prices (based on the March 3, 2014 ERC Order) for WESM sales and purchases by SMEC, SPPC, SPDC, SMELC and MPPCL will have to be settled with the Independent Electricity Market Operator of the Philippines ("IEMOP", the current operator of the WESM).

It is highly likely that the SC Decision will attain finality, and in that instance, a claim for refund may be made by the relevant subsidiaries with IEMOP in the aggregate amount of up to P2,321,785.

iii. Generation Payments to PSALM

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

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

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

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City (the "RTC"). 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. PSALM sought for reconsideration of the said Order but was later on denied by the RTC.

PSALM filed with the CA a Petition for Review on Certiorari assailing the RTC's order of denial. The CA ruled in favor of SPPC and affirmed the RTC's issuance of a writ of preliminary injunction against PSALM prohibiting it from terminating the Ilijan IPPA Agreement while the main case in the lower court is pending and named Meralco as intervenor (the "2017 CA Decision").

PSALM filed a Motion for Reconsideration dated to the 2017 CA Decision but it was denied by the CA in its resolution dated July 12, 2019 (the "2018 CA Resolution").

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 2017 CA Decision and the 2018 CA Resolution but was denied by the SC in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution"). PSALM filed a Motion for Reconsideration thereof and was denied by the SC in a resolution dated August 5, 2019 which became final and executory 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 from the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City.

SPPC filed a 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. 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 26, 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 orders of the RTC dated September 24, 2018 and April 29, 2019 (CA-G.R. SP No. 161706) (the "PSALM 2019 CA Petition"). Although the CA dismissed the PSALM 2019 CA Petition in a resolution dated August 23, 2019, the CA subsequently reconsidered its decision, granted the Motion for Reconsideration filed by PSALM and reinstated the PSALM 2019 CA Petition in its resolution dated February 24, 2020, after PSALM filed a Motion for Reconsideration of the dismissal of its petition.

On April 7, 2022, the CA promulgated a Decision dismissing the PSALM 2019 CA Petition. PSALM filed a Motion for Reconsideration dated April 29, 2022. SPPC filed a Motion for Leave to File Opposition to the Motion for Reconsideration with an Opposition to the said Motion for Reconsideration on July 15, 2022.

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.

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

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

In an Order dated November 27, 2020, the RTC denied PSALM's Motion for Leave to File Amended Answer Ad Cautelam (the "November 27, 2020 RTC Order"). On January 15, 2021, SPPC filed a Motion for Summary Judgment, praying that judgment be rendered in favor of SPPC on all its causes of action based on the pleadings, affidavits, and admissions on file. On January 29, 2021, PSALM filed a Motion for Reconsideration of the November 27, 2020 RTC Order.

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

On May 21, 2021, SPPC filed a Motion for Reconsideration of the March 23, 2021 RTC Order, which denied its Motion for Summary Judgment. PSALM filed an Opposition to the Motion for Reconsideration and SPPC filed a Motion for Leave to File a Reply to the Opposition with an incorporated Reply.

In June 2021, PSALM also filed a Petition for Certiorari under Rule 65 of the Rules of Court to annul the November 27, 2020 RTC Order and the March 23, 2021 RTC Order with the CA, which was denied by the CA in its Decision dated May 30, 2022. PSALM filed a Motion for Reconsideration dated June 23, 2022. SPPC filed a Motion for Leave to File Opposition to the Motion for Reconsideration with an Opposition to the said Motion for Reconsideration on July 29, 2022.

The mediation scheduled on April 19, 2021 did not push through, in view of the restrictions imposed by the enhanced community quarantine and modified enhanced community quarantine.

In an Order dated May 18, 2021, the RTC recalled the portion of the March 23, 2021 RTC Order, where it set the case for mediation, given that the parties have already exhausted both court-annexed mediation and judicial dispute resolution and scheduled the pre-trial of the case on June 18, 2021, which was however cancelled.

On September 13, 2021, the RTC denied SPPC's Motion for Partial Reconsideration of the March 23, 2021 RTC Order and scheduled the pre-trial of the case on November 19, 2021. Pre-trial proceeded on November 19, 2021 and the parties filed the Joint Stipulation of Facts on April 6, 2022.

SPPC filed a Motion to Amend Pre-trial Order and Minutes of the Pre-trial issued by the RTC on April 7, 2022. The hearing scheduled on May 6, 2022 was cancelled because the RTC had not yet resolved SPPC's Motion to Amend Pre-trial Order, which was later granted in an order dated May 20, 2022, and the RTC accordingly issued an Amended Pre-trial Order.

SPPC presented its first witness on July 29, 2022 and will present its second witness on August 19, 2022.

Although the proceedings before the RTC remain pending, the Ilijan Power Plant was turned over by PSALM to SPPC pursuant to the IPPA Agreement and the Deed of Sale executed between PSALM and SPPC dated June 3, 2022.

iv. *Criminal Cases*

SPPC

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

On 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.

On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action.

In a Resolution dated March 10, 2021, which was approved by the Ombudsman on February 15, 2022, the Graft Investigation and Prosecution Officer ("GIPO") dismissed the criminal complaint against the Respondents. In a Decision of the same date, approved by the Ombudsman also on February 15, 2022, the GIPO also dismissed the administrative complaint against the Respondents.

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

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of TPEC and TSC, 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 Resolution of July 29, 2016, through the filing of Petition for Review 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.

While the said Motion for Partial Reconsideration is pending, SMEC and the Respondents filed before the DOJ a Joint Motion to Dismiss dated June 6, 2022 praying for the dismissal of the criminal complaint filed by SMEC.

v. *Civil Cases*

SMEC

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

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

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

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

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

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

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

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

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

In an Order dated May 30, 2022, RTC Pasig Branch 268 denied PSALM's Omnibus Motion for Reconsideration of the September 30, 2021 Order and to Resolve Pending Motion to Set Preliminary Hearing on Special and Affirmative Defenses, and to Defer Pre-trial (sic). In the same Order, RTC Pasig Branch 268 set the pre-trial on August 1, 2022. SMEC and PSALM filed a Joint Motion to Re-Set Pre-trial Conference on the ground that the parties are negotiating for an amicable settlement. RTC Pasig Branch 268 granted the Joint Motion and scheduled the resumption on September 1, 2022, in the event that the parties do not reach an amicable settlement.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TSC 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.

On June 6, 2022, SMEC, TPEC and TSC filed a Joint Motion to Dismiss the ERC complaint.

b. Events After the Reporting Date

i. Shelf-registration of P60,000,000 Fixed Rate Peso-denominated Bonds and Issuance of P40,000,000 Bonds

On July 26, 2022, SMC Global Power issued and listed with the PDEx a total of P40,000,000 fixed rate Peso-denominated bonds, the first tranche of the P60,000,000 shelf-registered fixed rate bonds approved by the Philippine SEC on July 11, 2022.

The bonds are comprised of P5,000,000 Series K Bonds due 2025, P25,000,000 Series L Bonds due 2028 and P10,000,000 Series M Bonds due 2032, with interest rates per annum of 5.9077%, 7.1051% and 8.0288%, respectively.

The proceeds from the issuance of the bonds will be used: (i) to partially finance SMC Global Power's investments in power-related assets, particularly Liquefied Natural Gas (LNG) projects and related assets, coal power plant projects, BESS and solar power plant projects; (ii) for general corporate purposes; and (iii) for payment of transaction-related fees, costs and expenses.

ii. On August 12, 2022, SMC Global Power's BOD approved the payment of distribution, amounting to US$10,156 on September 16, 2022, to the holder of the US$650,000 RPS. On the same date, the BOD approved the payment of distributions, in the total amount of US$67,125, plus applicable taxes, on October 21, October 25 and November 5, 2022, to the holders of the US$750,000 SPCS issued in October 2020, US$800,000 SPCS issued in April 2019, and US$500,000 SPCS issued in November 2019, respectively.

c. Supplemental Cash Flows Information

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

	Loans Payable	Long-term Debt	Lease Liabilities	Total
Balance as at January 1, 2022 (Audited)	**P1,529,970**	**P222,921,443**	**P78,213,359**	**P302,664,772**
Changes from Financing Activities				
Proceeds from borrowings	**30,756,100**	**15,506,000**	**-**	**46,262,100**
Payments of borrowings	**(7,564,200)**	**(17,745,180)**	**-**	**(25,309,380)**
Payments of lease liabilities	**-**	**-**	**(14,903,050)**	**(14,903,050)**
Total Changes from Financing Activities	**23,191,900**	**(2,239,180)**	**(14,903,050)**	**6,049,670**
Effect of Changes in Foreign Exchange Rates	**597,755**	**6,827,640**	**2,602,701**	**10,028,096**
Other Changes	**-**	**(47,658)**	**2,811,184**	**2,763,526**
Balance as at June 30, 2022 (Unaudited)	**P25,319,625**	**P227,462,245**	**P68,724,194**	**P321,506,064**

	Loans Payable	Long-term Debt	Lease Liabilities	USCS	SPCS	Total
Balance as at January 1, 2021 (Audited)	P1,680,805	P219,552,782	P99,511,094	P13,823,499	P132,199,732	P466,767,912
Changes from Financing Activities						
Proceeds from borrowings	6,743,625	21,885,000	-	-	-	28,628,625
Proceeds from issuance of SPCS	-	-	-	-	28,217,773	28,217,773
Payments of borrowings	(6,743,625)	(13,210,294)	-	-	-	(19,953,919)
Payments of lease liabilities	-	-	(11,867,099)	-	-	(11,867,099)
Redemption of USCS	-	-	-	(14,581,500)	-	(14,581,500)
Total Changes from Financing Activities	-	8,674,706	(11,867,099)	(14,581,500)	28,217,773	10,443,880
Effect of Changes in Foreign Exchange Rates	27,195	1,196,385	731,866	-	-	1,955,446
Other Changes	-	(227,050)	513,625	758,001	-	1,044,576
Balance as at June 30, 2021 (Unaudited)	P1,708,000	P229,196,823	P88,889,486	P -	P160,417,505	P480,211,814

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

d. Commitments

The outstanding purchase commitments of the Group amounted to P134,750,238 as at June 30, 2022. Amount authorized but not yet disbursed for capital projects is approximately P133,667,802 as at June 30, 2022.

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

e. There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

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

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

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

The following are the major performance measures that SMC Global Power Holdings Corp. and Subsidiaries (the "Group") use. Analyses are employed by comparisons and measurements based on the financial data as at June 30, 2022 and December 31, 2021 for liquidity, solvency and profitability ratios and for the periods ended June 30, 2022 and 2021 for operating efficiency ratios.

LIQUIDITY RATIO

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

	Conventional		Adjusted [1]	
(in Millions Peso)	**June 2022**	December 2021	**June 2022**	December 2021
(A) Current Assets	**161,038**	156,470	**161,038**	156,470
(B) Current Liabilities	**168,093**	109,472	**149,864**	87,876
Current Ratio (A)/(B)	**0.96**	1.43	**1.07**	1.78

[1] Current portion of lease liabilities, in relation to 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 June 30, 2022 and December 31, 2021, current portion of lease liabilities to PSALM amounted to P18,229 million and P21,596 million, respectively.

SOLVENCY RATIO

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

Per relevant Loan Covenants of SMC Global Power

(in Millions Peso)	**June 2022**	December 2021
(A) Net Debt [2]	**231,524**	184,001
(B) Total Equity [3]	**236,997**	247,603
Net Debt-to-Equity Ratio (A)/(B)	**0.98**	0.74

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

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

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

(in Millions Peso)	Conventional		Adjusted [4]	
	June 2022	December 2021	**June 2022**	December 2021
(A) Total Assets	**664,301**	635,724	**563,400**	483,896
(B) Total Equity	**241,540**	251,728	**241,540**	251,728
Asset-to-Equity Ratio (A)/(B)	**2.75**	2.53	**2.33**	1.92

[4] 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 lease liabilities. As at June 30, 2022 and December 31, 2021, the carrying amount of the IPPA power plant assets amounted to P100,901 million and P151,828 million, respectively.

PROFITABILTY RATIO

Return on Equity = **Net Income** / **Total Equity**

(in Millions Peso)	**June 2022**	December 2021
(A) Net Income [5]	**1,879**	15,978
(B) Total Equity	**241,540**	251,728
Return on Equity (A)/(B)	**0.8%**	6.3%

[5] Annualized for quarterly reporting.

Interest Coverage Ratio = **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)** / **Interest Expense**

Per relevant Loan Covenants of SMC Global Power

(in Millions Peso)	**June 2022**	December 2021
(A) EBITDA [6]	**28,464**	33,542
(B) Interest Expense [7]	**12,508**	13,405
Interest Coverage Ratio (A)/(B)	**2.28**	2.50

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

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

OPERATING EFFICIENCY

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

(in GWh)	Periods Ended June 30 **2022**	2021
(A) Current Period Offtake Volume	**14,336**	13,553
(B) Prior Period Offtake Volume	**13,553**	12,924
Volume Growth [(A)/(B) – 1]	**5.8%**	4.9%

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

(in Millions Peso)	Periods Ended June 30 **2022**	2021
(A) Current Period Revenue	**102,581**	60,279
(B) Prior Period Revenue	**60,279**	57,177
Revenue Growth [(A)/(B) – 1]	**70.2%**	5.4%

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

(in Millions Peso)	Periods Ended June 30 **2022**	2021
(A) Income from Operations	**12,750**	17,158
(B) Revenues	**102,581**	60,279
Operating Margin (A)/(B)	**12.4%**	28.5%

SMC GLOBAL POWER

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as at and for the period ended June 30, 2022 (with comparative figures as at December 31, 2021 and for the period ended June 30, 2021). All necessary adjustments have been made to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2022, and for all the other periods presented. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. SIGNIFICANT TRANSACTIONS AND MAJOR DEVELOPMENTS IN 2022

UPDATE ON BATTERY ENERGY STORAGE SYSTEM ("BESS") PROJECTS

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

The remaining BESS projects with a total capacity of 1,000 megawatts ("MW") are expected to go into commercial operations in 2023. The BESS projects are expected to be contracted to the NGCP and should contribute significantly to the profitability of the Group following their commercial operations.

TURNOVER OF THE ILIJAN POWER PLANT

On June 3, 2022, South Premiere Power Corp. ("SPPC") and Power Sector Assets and Liabilities Management Corporation ("PSALM") executed a Deed of Sale for the transfer of control and ownership of the Ilijan Power Plant to SPPC following the end of its Independent Power Producer Administration ("IPPA") Agreement.

REDEMPTION OF SERIES H BONDS BY SMC GLOBAL POWER

On April 25, 2022, SMC Global Power redeemed its Series H Bonds amounting to P13,845 million, which forms part of the P30,000 million Series H-I-J fixed rate bonds issued in April 2019. SMC Global Power used the proceeds of the P10,000 million term loan availed in April 2022 and cash generated from operations for the redemption of the Series H Bonds.

AVAILMENT OF LONG-TERM DEBT

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

The proceeds were used to finance expansion projects and settle other transaction-related fees, costs and expenses of the facility.

On May 24, 2022, SMC Global Power availed of US$100 million from a 3-year term loan subject of a facility agreement executed with a group of foreign banks on May 18, 2022. The loan is subject to a floating interest rate plus margin and will mature in May 2025.

The proceeds were used for working capital requirements relating to expansion projects, general corporate purposes, and settlement of other transaction-related fees, costs and expenses of the facility.

AVAILMENT OF SHORT-TERM LOANS

On April 8, 2022 and May 10, 2022, SMC Global Power availed of 1-year term loans amounting to P10,000 million and US$200 million, respectively. The proceeds will partially refinance its maturing debt obligations and fund general corporate purposes.

In June 2022, SMC Global Power availed a total of P4,500 million fixed-rate short-term loans from a local financial institution. The proceeds of the loan were used for general corporate purposes and were paid in full in July 2022.

PAYMENT OF MATURING LONG-TERM DEBT

In the first semester of 2022, SMC Consolidated Power Corporation (“SCPC”), San Miguel Consolidated Power Corporation (“SMCPC”) and SMC Global Power paid a total of P1,953 million of their scheduled long-term debt amortizations pursuant to the terms and conditions of their respective facility agreements.

On April 29, 2022, Masinloc Power Partners Co. Ltd. (“MPPCL”) made principal repayments of term loans, amounting to US$23 million and US$14 million, pursuant to its Omnibus Refinancing Agreement and Omnibus Expansion Financing Agreement, respectively.

EVENTS AFTER THE REPORTING DATE

On July 26, 2022, SMC Global Power issued and listed with the Philippine Dealing and Exchange Corp. a total of P40,000 million fixed rate bonds, the first tranche of the P60,000 million shelf-registered fixed rate Peso-denominated bonds approved by the Philippine Securities and Exchange Commission on July 11, 2022.

The bonds comprised of P5,000 million Series K Bonds due 2025, P25,000 million Series L Bonds due 2028 and P10,000 million Series M Bonds due 2032, with interest rates per annum of 5.9077%, 7.1051% and 8.0288%, respectively.

The proceeds from the issuance of the bonds will be used: (i) to partially finance SMC Global Power's investments in power-related assets, particularly Liquefied Natural Gas ("LNG") projects and related assets, coal power plant projects, BESS and solar power plant projects; (ii) for general corporate purposes; and (iii) for payment of transaction-related fees, costs and expenses.

On July 8, 2022, the SMC Global Power availed a P5,000 million fixed rate short-term loan from a local bank. Interest and principal repayment shall be made upon maturity in October 2022. The proceeds shall be used for general corporate purposes.

On August 10, 2022, the SMC Global Power fully paid its US$200 million short-term loan pursuant to the facility agreement dated April 29, 2022.

II. FINANCIAL PERFORMANCE

2022 vs. 2021

	June 30		Horizontal Analysis Increase (Decrease)		Vertical Analysis	
In Millions	**2022**	**2021**	**Amount**	**%**	**2022**	**2021**
Revenues	**P102,581**	P60,279	P42,302	70%	**100%**	100%
Cost of power sold	**(87,343)**	(40,833)	46,510	114%	**(85%)**	(68%)
Gross profit	**15,238**	19,446	(4,208)	(22%)	**15%**	32%
Selling and administrative expenses	**(2,488)**	(2,288)	200	9%	**(3%)**	(4%)
Income from operations	**12,750**	17,158	(4,408)	(26%)	**12%**	28%
Interest expense and other financing charges	**(8,186)**	(9,204)	(1,018)	(11%)	**(8%)**	(15%)
Interest income	**438**	246	192	78%	**0%**	0%
Equity in net losses of an associate and joint ventures	**(65)**	(126)	(61)	(48%)	**0%**	0%
Other income (charges) - net	**(4,656)**	3,537	(8,193)	(232%)	**(4%)**	6%
Income before income tax	**281**	11,611	(11,330)	(98%)	**0%**	19%
Income tax expense (benefit)	**2,161**	(608)	2,769	455%	**2%**	(1%)
Net income (loss)	**(P1,880)**	P12,219	(P14,099)	(115%)	**(2%)**	20%

Revenues

The Group's consolidated revenues for the first semester of 2022 registered at P102,581 million, 70% or P42,302 million higher than last year's P60,279 million. The increase was mainly due to: (i) higher average realization price attributable to higher fuel cost passed on to customers as a result of rising coal prices and the increase in overall spot sales price in Luzon; (ii) improvement in nominations from the Manila Electric Company ("Meralco"), other distribution utilities and industrial customers arising from relatively lighter Corona Virus Disease 2019 ("COVID-19") quarantine restrictions compared to 2021, thereby increasing offtake volumes by 6% to 14,336 gigawatt hours ("GWh") from 13,553 GWh in 2021; and (iii) commencement of commercial operations of the 20 MW Kabankalan 1 BESS on January 26, 2022.

Cost of Power Sold

Cost of power sold increased by 114% or P46,510 million, from P40,833 million for the first semester of 2021 to P87,343 million in 2022. The increase was mainly attributable to the following: (i) higher generation cost of Sual, Masinloc, Limay and Malita Power Plants on account of rising coal prices and increase in gas prices for the Ilijan Power Plant incurred prior to the turnover, (ii) higher volume of power purchased from the Philippine Wholesale Electricity Spot Market ("WESM"), due to the deration of the Ilijan Power Plant on account of Malampaya gas supply restriction until June 4, 2022 and the plant's shutdown for inspection, minor repairs and upgrades; and (iii) high WESM prices incurred especially in January due to the simultaneous multiple plants shutdown in Luzon.

Selling and Administrative Expenses

Selling and administrative expenses increased by 9% or P200 million, from P2,288 million for the first semester of 2021 to P2,488 million for the same period of 2022. The increase was mainly due to: (i) higher local business taxes of MPPCL, SMC Global Power and SCPC; (ii) reversal of impairment losses on trade receivable in the first half of 2021 due to improvement in collections; and (iii) increase in personnel-related expenses of the Group.

Income from Operations

As a result, consolidated income from operations of P12,750 million for the first semester of 2022 declined by 26% from last year's P17,158 million.

Interest Expense and Other Financing Charges

Interest expense and other financing charges amounted to P8,186 million for the first half of 2022, a decrease by 11% from last year, primarily due to lower interest recognized on the declining principal balances of the IPPA entities' lease liabilities especially with the expiration of the Ilijan IPPA Agreement.

Interest Income

Interest income amounted to P438 million for the first half of 2022, an increase by 78% from last year, driven primarily by higher average interest rate for the period.

Equity in Net Losses of an Associate and Joint Ventures

Equity in net losses of an associate and joint ventures amounted to P65 million for the first half of 2022, a decrease by 48% from last year, due mainly to the improvement in the financial performance results of Angat Hydropower Corporation ("AHC").

Other Income (Charges) - net

Other charges amounted to P4,656 million for the first half of 2022 compared with last year's other income of P3,537 million. This was due to (i) lower income recognized from the reduction of PSALM fixed fees for the extended outages of Sual Power Plant in the first quarter of 2021 up to May 12, 2021; and (ii) higher net foreign exchange losses by P7,124 million recognized on the Group's US dollar-denominated financial assets and liabilities with the continued depreciation of the Philippine peso against the US dollar during the period.

Income Tax Expense (Benefit)

Provision for income tax made a complete turnaround from last year's P608 million benefit to P2,161 million expense this year. This resulted primarily from the recording in the first quarter of 2021 the impact of the Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE") Law amounting to P3,152 million.

Net Income (Loss)

The Group sustained a net loss for the first semester of 2022 amounting to P1,880 million compared with the net income from last year of P12,219 million. This was due primarily to lower gross margin and net unrealized foreign exchange losses amounting to P6,144 million for the first semester of 2022. Without the recognized net foreign exchange losses and CREATE Law adjustments, net income would have declined only by 58% from previous year.

The following are the highlights of the performance of the individual operating subsidiaries per business segment:

1. **POWER GENERATION**

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

   For the first semester of 2022, net generation of 3,461 GWh, at 71% net capacity factor rate was 83% higher than last year. This was mainly due to fewer outages in 2022 as Sual Unit 2 was on extended outage for the repair of turbine blades and diaphragm, and Sual Unit 1 was on forced and maintenance shutdown during the first half of 2021. Likewise, total offtake volume increased by 12% to 4,313 GWh from last year on account of higher Meralco nominations and the improvement in volumes sold to the WESM and affiliate generators for the first semester of 2022.

   Revenues of P31,363 million was 77% higher than last year's P17,704 million mainly attributable to improvement in average realization price of electric cooperatives driven by the increase in pass-on fuel charges and higher spot market prices.

   Operating income of P1,298 million was 60% lower than last year on account of higher generation cost due to significant increase in cost of coal and spot purchase prices offset by the decline in power purchase volumes from affiliate and external generators as a result of higher plant availability during the period.

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

   The net generation of Ilijan Power Plant for the first semester of 2022 fell by 25% due to its deration brought by the continued Malampaya gas supply restriction which started on March 17, 2021 until the expiration of the Ilijan IPPA Agreement with PSALM on June 4, 2022. Moreover, the plant underwent inspection, minor repairs and upgrades. Total offtake volume of 3,474 GWh decreased by 11% compared to last year on account of lower spot sales volume and replacement power sold to affiliate generators, slightly offset by the increase in Meralco nominations.

   Revenues of P18,543 million for the first semester of 2022 was 21% higher compared to same period last year despite lower offtake volumes. This was on account of the significant increase in spot sales prices and the improved average realization price for bilateral sales.

   Operating income of P1,550 million in 2022 dropped by 50% compared to the P3,078 million posted last year. This was attributable to higher gas price, increased power purchases as well as the significant increase in average spot purchase price caused by multiple plants shutdown in Luzon during the period.

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

The San Roque Power Plant's net generation of 261 GWh, at 17% net capacity factor rate, for the first semester of 2022 fell by 20% due to lower water inflows resulting to low water reservoir level. However, total offtake volume of 391 GWh increased by 6% compared to last year due to the new bilateral contract which took effect on March 5, 2022.

Revenues of P3,196 million for the period was 90% higher than last year mainly due to higher average realization price and volume of bilateral sales.

The foregoing factors resulted to a 66% upturn in operating income from P539 million in 2021 to P894 million in 2022.
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d. **SCPC, owner of Limay Greenfield Power Plant**

Limay Greenfield Power Plant has a combined capacity of 600 MW. Total generation of the plant from all operating units of 2,057 GWh at 88% net capacity factor rate for the first semester of 2022 was 4% lower than last year at 2,136 GWh due to higher plant outages for preventive maintenance services. SCPC dispatched 791 GWh of the plant's net generation to its power generation customers while the rest was dispatched to its Retail Electricity Supply ("RES") customers. Total offtake volume of 820 GWh fell from last year by 11% due to decline in both bilateral and spot sales volume.

For the first semester of 2022, revenues increased by 43% from P4,306 million last year to P6,154 million in the current year primarily from increase in average realization price on account of increase in pass-on fuel rate and the fuel recovery adjustments to RES customers as a result of rising fuel prices. Higher revenues from spot sales were also realized as a result of increase in spot rates.

Consequently, operating income registered at P1,202 million in 2022, 36% lower than the P1,873 million posted in 2021.

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

For the first semester of 2022, a total of 801 GWh was generated by the plant at a capacity factor rate of 70% which was 15% lower compared with last year. Revenues at P7,610 million grew by 61% on account of higher average realization price due to higher pass-on fuel cost as a result of rising cost of coal. Accordingly, operating income registered at P2,734 million, 33% higher than the same period last year.

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

The Masinloc Power Plant operating Units 1, 2, and 3 contributed a total net generation of 3,166 GWh for the first semester of 2022 with 2,847 GWh supplied to power generation customers while the rest was discharged to RES customers. This was 3% lower compared to the 3,248 GWh last year with higher forced outage days and derations for Units 1 and 2 during the period.

Total offtake volume of 3,535 GWh fell from last year by 4% due to lower spot sales volume and replacement power sold to affiliate generators. Year-to-date revenues, increased to P26,597 million due to high spot market prices and bilateral rates to customers. However, operating income of P3,533 million was lower by 20% due to the increase in cost of coal and spot purchase prices during the period.

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

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

Revenues of P2,491 million was 37% higher than last year driven primarily by the increase in average realization price. The improvement in revenues was curtailed by higher systems loss and cost of power purchases. Consequently, operating loss of P584 million in 2022 was higher than the P125 million recognized in 2021 for the same period.

b. **SCPC - RES**

For the first semester of 2022, the total offtake volume registered at 1,367 GWh. This was 2% higher than last year's 1,344 GWh due to additional contracts. Revenues increased by 61% from P6,517 million last year to P10,486 million this year as offtake volume increased and with higher bilateral rates. This was offset by higher generation cost as a result of rising coal prices.

Consequently, operating income registered at P1,234 million in 2022, 12% lower than the P1,397 million posted last year.

c. **MPPCL - RES and BESS**

For the first semester of 2022, total offtake volume and revenues (inclusive of ancillary revenues from the 10 MW BESS) registering at 741 GWh and P5,652 million, respectively, increased compared to last year. This was mainly attributable to new contestable customers and the incremental fuel cost recovery adjustment negotiated with customers in view of the significant rise in fuel cost (with Global Coal Newcastle Index [GC Newc Index] ending at US$397.63/metric ton [MT] as of June 30, 2022 vs US$127.68/MT as of June 30, 2021). Operating income registered at P869 million for the first semester of 2022.

d. **SMCGP Philippines Energy - BESS**

On January 6, 2022, the ERC granted provisional authority for the implementation of the ASPA between the NGCP and SMCGP Philippines Energy commencing on January 26, 2022. SMCGP Philippines Energy reported revenues and operating income of P414 million and P248 million, for the first semester of 2022, respectively.

2021 vs. 2020

			Horizontal Analysis		**Vertical**	
	June 30		**Increase (Decrease)**		**Analysis**	
In Millions	**2021**	**2020**	**Amount**	**%**	**2021**	**2020**
Revenues	**P60,279**	P57,177	P3,102	5%	**100%**	100%
Cost of power sold	**(40,833)**	(36,194)	4,639	13%	**(68%)**	(63%)
Gross profit	**19,446**	20,983	(1,537)	(7%)	**32%**	37%
Selling and administrative expenses	**(2,288)**	(2,863)	(575)	(20%)	**(4%)**	(5%)
Income from operations	**17,158**	18,120	(962)	(5%)	**28%**	32%
Interest expense and other financing charges	**(9,204)**	(9,368)	(164)	(2%)	**(15%)**	(16%)
Interest income	**246**	727	(481)	(66%)	**0%**	1%
Equity in net losses of an associate and joint ventures	**(126)**	(394)	(268)	(68%)	**0%**	(1%)
Other income - net	**3,537**	4,059	(522)	(13%)	**6%**	7%
Income before income tax	**11,611**	13,144	(1,533)	(12%)	**19%**	23%
Income tax expense (benefit)	**(608)**	4,081	(4,689)	(115%)	**(1%)**	7%
Net income	**P12,219**	P9,063	P3,156	35%	**20%**	16%

Revenues

The Group's consolidated revenues for the first semester of 2021 registered at P60,279 million, 5% or P3,102 million higher than the P57,177 million for 2020. The increase was mainly driven by higher spot sales volume, coupled with high average spot price, and higher nominations from distribution utilities, industrial and contestable customers as demand gradually improve with the reopening of economic activities and easing of community quarantine restrictions.

Cost of Power Sold

Cost of power sold increased by 13% or P4,639 million, from P36,194 million for the first semester of 2020 to P40,833 million for the same period of 2021. The increase was mainly attributable to higher power purchases resulting from the lack of peak capacity to serve the Group's improved bilateral requirements with the continued deration of the Ilijan Power Plant due to gas supply restrictions and the extended outages of the Sual Power Plant. Moreover, spot prices surged in May when the Group and the rest of the power industry experienced a very high system demand.

Selling and Administrative Expenses

Selling and administrative expenses decreased by 20% or P575 million, from P2,863 million for the first semester of 2020 to P2,288 million for the same period of 2021. The decrease was mainly due to: (i) contributions of P200 million for COVID-19 community response initiatives incurred in the first semester of 2020; (ii) lower taxes and licenses due to the decline in local business taxes of San Miguel Electric Corp. ("SMELC") and SPDC, and lower documentary stamp taxes incurred by SMC Global Power; and (iii) reversal of impairment losses on trade receivables due to improvement in collections.

Income from Operations

As a result, consolidated income from operations of P17,158 million for the first semester of 2021, declined by 5% from P18,120 million posted in 2020.

Interest Expense and Other Financing Charges

Interest expense and other financing charges decreased by 2% from P9,368 million for the first semester of 2020 to P9,204 million in 2021, due primarily to lower interest expense recognized on the declining principal balances of the IPPA entities' lease liabilities.

Interest Income

Interest income decreased by 66%, from P727 million for the first semester of 2020 to P246 million in 2021, due mainly to lower average interest rate and shorter placement periods as funds were utilized to defray capital expenditures for ongoing construction projects.

Equity in Net Losses of an Associate and Joint Ventures

Equity in net losses of an associate and joint ventures registered at P126 million in 2021, down from the P394 million posted in 2020, due to lower share in net losses from AHC.

Other Income - net

Other income decreased by 13%, from P4,059 million for the first semester of 2020 to P3,537 million in 2021. This was due mainly to the recognition in 2020 of P3,826 million in settlement received from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts, which was higher compared to the recognized income from reduction of PSALM fixed fee charges, for the outages of Sual Power Plant's Units 1 and 2 in the first semester of 2021, amounting to P3,348 million.

<u>Income Tax Expense (Benefit)</u>

Provision for income tax had a complete turnaround from P4,081 million expense for 2020 to P608 million benefit for 2021. This resulted primarily from the adjustment made in the first quarter of 2021 for the impact of the CREATE Law in 2020 primarily arising from the IPPA entities' lease liabilities.

<u>Net Income</u>

Consequently, the consolidated net income of the Group for the first semester of 2021 grew by 35% or P3,156 million from 9,063 million in 2020 to P12,219 million in 2021.

The following are the highlights of the performance of the individual operating subsidiaries per business segment:

1. **POWER GENERATION**

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

   For the first semester of 2021, net generation of 1,892 GWh, at 44% net capacity factor rate, was 41% lower than the same period of 2020 due to higher outage hours resulting mainly from the extended outage of Unit 2 and forced and planned maintenance shutdown of Unit 1 during the period. Total offtake volume likewise decreased to 3,837 GWh, from 4,690 GWh in 2020, on account of lower spot and replacement power sales and decline in demand from industrial and RES customers during the quarantine period.

   Revenues of P17,704 million was 10% lower than the P19,644 million posted in 2020 mainly attributable to the decline in offtake volume and partly moderated by the increase in average realization price driven by the rate escalation in accordance with the provisions of its Power Supply Agreement ("PSA").

   Operating income of P3,268 million was 49% lower than the P6,351 million posted in 2020 due to the aforementioned plus higher power purchases during the outages of both Sual units.

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

   The net generation of Ilijan Power Plant for the first semester of 2021 fell by 5% on account of longer outage hours resulting from the planned maintenance shutdown of Block 2 and its continued deration due to gas supply restrictions during the period. Total offtake volume of 3,900 GWh increased by 2% compared to the same period in 2020 mainly due to higher Meralco nominations, with the commencement of the 290 MW Mid-merit PSA on March 16, 2020.

   Despite the increase in offtake volume, revenues of P15,298 million for the semester of 2021 was lower from the revenues posted in 2020 on account of the decline in average realization price for bilateral sales.

   Operating income of P3,078 million in 2021 declined by 32% from the P4,499 million posted in 2020. The decline was attributable to lower average realization price, higher power purchases on account of the plant deration and higher spot prices especially during the month of May 2021 when the power industry experienced the highest system demand.

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

The San Roque Power Plant's net generation of 328 GWh, at 22% net capacity factor rate, for the first semester of 2021 increased by 30% due to longer operating hours and higher water discharge during the period. Total offtake volume of 369 GWh likewise increased by 14% compared to 323 GWh in 2020 attributable to higher spot sales and replacement power supplied to affiliate generators.

Revenues for the first semester, increased by 18% from P1,422 million in 2020 P1,681 million in 2021 due mainly to higher average realization price and total offtake volume.

The foregoing factors resulted to an upturn in operating income from P346 million in 2020 to P539 million in 2021.

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

Total net generation of the plant of 2,136 GWh for the first semester of 2021, at 92% net capacity factor rate, was 45% higher than the 1,469 GWh posted in 2020 due to higher plant availability with lower outage hours. SCPC dispatched 886 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 924 GWh fell by 17% from the total offtake volume registered in 2020 due to lower nominations from bilateral customers during the period.

For the first semester, revenues decreased by 16% from P5,146 million reported in 2020 to P4,306 million in 2021 due to decline in offtake volume and lower average selling price for replacement power sales. However, with lower generation cost, operating income registered at P1,873 million in 2021, a 10% improvement compared to the same period in 2020.

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

For the first semester of 2021, a total of 948 GWh was generated by the plant at a capacity factor rate of 83%. This was 2% lower compared to the same period in 2020. Revenues at P4,734 million declined by 16% on account of lower nominations from its existing bilateral customers. Likewise, average realization price decreased due to lower pass-on fuel costs with the utilization of lower kcal coal. Accordingly, operating income registered at P2,051 million, which was 16% lower than the previous year.

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

The Masinloc Power Plant operating Units 1, 2, and 3 contributed a total net generation of 3,248 GWh for the first semester of 2021. This was more than double of the 1,587 GWh posted in 2020 mainly resulting from higher combined operating hours of Units 1 and 2 in 2021. The start of commercial operations of Unit 3 was on September 26, 2020.

Total offtake volume of 3,696 GWh exceeded the previous year by 15% on account of higher spot sales volume and replacement power sales to affiliate generators driven by the high generation of the power plant. Year-to-date revenues and operating income increased to P15,370 million and P4,442 million, respectively, due mainly to higher average realization price for replacement power and the increase in spot prices for the spot sales volume during the period.

2. RETAIL AND OTHER POWER-RELATED SERVICES

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

Revenues of P1,819 million was 7% higher than the P1,704 million posted in 2020 primarily driven by the increase in average realization price. On the other hand, operating loss of P125 million in 2021 was higher than the P85 million recognized in 2020 on account of higher cost of power purchases.

b. SCPC - RES

For the first semester of 2021, total offtake volume registered at 1,344 GWh. This was 56% higher than the 864 GWh registered in 2020 due to increase in nominations from contestable customers and the transfer of contestable customers from SMELC. As a result, revenues increased by 58% from P4,129 million in the first semester of 2020 to P6,517 million in 2021. Consequently, with better margin and lower operating expense, operating income registered at P1,397 million in 2021. This was 310% higher than the P340 million posted in 2020.

c. MPPCL - RES

MPPCL has Retail Supply Contracts ("RSC") with various contestable customers. Starting May 26, 2020, several RSCs from SMELC were assigned to MPPCL RES.

For the first semester of 2021, total offtake volume and revenues more than doubled compared to 2020, registering at 282 GWh and P1,718 million, respectively, attributed mainly to the contracts assigned from SMELC. Consequently, operating income registered at P496 million in 2021, much higher than in 2020.

III. FINANCIAL POSITION

2022 vs. 2021

			Horizontal Analysis Increase (Decrease)		Vertical Analysis	
In Millions	**June 30, 2022**	December 31, 2021	Amount	%	**2022**	2021
Cash and cash equivalents	**P38,181**	P67,690	(P29,509)	(44%)	**6%**	11%
Trade and other receivables - net	**71,874**	47,272	24,602	52%	**11%**	7%
Inventories	**14,402**	10,018	4,384	44%	**2%**	2%
Prepaid expenses and other current assets	**36,581**	31,490	5,091	16%	**5%**	5%
Total Current Assets	**161,038**	156,470	4,568	3%	**24%**	25%
Investments and advances - net	**10,741**	10,839	(98)	(1%)	**2%**	2%
Property, plant and equipment - net	**281,804**	211,859	69,945	33%	**43%**	33%
Right-of-use assets - net	**108,839**	157,160	(48,321)	(31%)	**16%**	25%
Deferred exploration and evaluation costs	**725**	719	6	1%	**0%**	0%
Goodwill and other intangible assets - net	**74,673**	72,943	1,730	2%	**11%**	11%
Deferred tax assets	**2,156**	1,447	709	49%	**0%**	0%
Other noncurrent assets	**24,325**	24,287	38	0%	**4%**	4%
Total Noncurrent Assets	**503,263**	479,254	24,009	5%	**76%**	75%
Total Assets	**P664,301**	P635,724	P28,577	4%	**100%**	100%
Loans payable	**25,320**	1,530	23,790	1555%	**4%**	0%
Accounts payable and accrued expenses	**73,239**	56,055	17,184	31%	**11%**	9%
Lease liabilities - current portion	**18,435**	21,677	(3,242)	(15%)	**3%**	3%
Income tax payable	**70**	25	45	180%	**0%**	0%
Current maturities of long-term debt - net of debt issue costs	**51,029**	30,185	20,844	69%	**8%**	5%
Total Current Liabilities	**168,093**	109,472	58,621	54%	**26%**	17%
Long-term debt - net of current maturities and debt issue costs	**176,433**	192,736	(16,303)	(8%)	**26%**	30%
Deferred tax liabilities	**22,160**	20,183	1,977	10%	**3%**	3%
Lease liabilities - net of current portion	**50,289**	56,536	(6,247)	(11%)	**8%**	9%
Other noncurrent liabilities	**5,786**	5,069	717	14%	**1%**	1%
Total Noncurrent Liabilities	**254,668**	274,524	(19,856)	(7%)	**38%**	43%
Total Liabilities	**422,761**	383,996	38,765	10%	**64%**	60%

Forward

In Millions	**June 30, 2022**	December 31, 2021	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis **2022**	2021
Equity Attributable to Equity Holders of the Parent Company						
Capital stock	**P1,250**	P1,062	P188	18%	**0%**	0%
Additional paid-in capital	**2,490**	2,490	-	0%	**0%**	0%
Senior perpetual capital securities	**167,767**	167,767	-	0%	**25%**	27%
Redeemable perpetual capital securities	**32,752**	32,752	-	0%	**5%**	5%
Equity reserves	**(1,537)**	(1,536)	(1)	0%	**0%**	0%
Retained earnings	**37,851**	48,248	(10,397)	(22%)	**6%**	8%
	240,573	250,783	(10,210)	(4%)	**36%**	40%
Non-controlling Interests	**967**	945	22	2%	**0%**	0%
Total Equity	**241,540**	251,728	(10,188)	(4%)	**36%**	40%
Total Liabilities and Equity	**P664,301**	P635,724	P28,577	4%	**100%**	100%

The Group's consolidated total assets as at June 30, 2022 amounted to P664,301 million, slightly higher by 4% or P28,577 million than December 31, 2021 balance of P635,724 million. The increase was attributable to the following factors:

a. Increase in property, plant and equipment by P69,945 million as a result of the (i) ongoing construction of the Batangas Combined Cycle Power Plant ("BCCPP"), BESS projects and the Mariveles Power Plant; and (ii) turnover of the Ilijan Power Plant following the expiration of the Ilijan IPPA Agreement in June 2022.

b. Increase in trade and other receivables by P24,602 million was mainly attributable to higher trade customer balances from power sales as the Group recovers in part the increase in generation cost, brought by higher coal prices, coupled with higher overall offtake volumes as demand improves.

c. Increase in prepaid expenses and other current assets by P5,091 million was mainly attributable to higher restricted cash balances of MPPCL as required under its credit facility agreement and additional input taxes on vatable purchases of the Group.

d. Increase in inventories by P4,384 million was mainly due to higher prices for coal inventories, with the rising coal indices, and the purchase of neat diesel fuel of SPPC from PSALM stored at the Ilijan Power Plant following its turnover.

e. Increase in deferred tax assets by P709 million was due primarily to the deferred income tax benefit recognized by MPPCL on unrealized foreign exchange losses from the revaluation of its US dollar-denominated liabilities.

f. Decrease in right-of-use assets by P48,321 million was mainly due to reclassification of the Ilijan Power Plant to "Property, plant and equipment - net" account following the expiration of the Ilijan IPPA Agreement in June 2022, and amortization during the period, partially offset by additional land and office spaces leased in 2022.

g. Decrease in cash and cash equivalents by P29,509 million was due mainly to the (i) capital expenditures for BCCPP, BESS and Mariveles Power Plant projects; (ii) lease payments of SMEC, SPDC and SPPC to PSALM; (iii) redemption of the Series H Bonds of SMC Global Power amounting to P13,845 million in April 2022;

(iv) distributions paid to the holders of Senior Perpetual Capital Securities ("SPCS") and Redeemable Perpetual Securities ("RPS") by SMC Global Power; and (v) payments of maturing long-term loans of MPPCL, SCPC, SMCPC and SMC Global Power. These were partly offset by the proceeds from the US$200 million and US$100 million long-term loans drawn in January and May 2022, respectively, and from the P10,000 million, US$200 million, and P4,500 million short-term loans drawn in April, May and June 2022, respectively, by SMC Global Power.

The Group's consolidated total liabilities as at June 30, 2022 amounted to P422,761 million, 10% or P38,765 million higher than the December 31, 2021 balance of P383,996 million. The major items accounting for the increase are as follows:

a. Increase in loans payable by P23,790 million was due to the Philippine peso and US dollar-denominated short-term loans drawn by SMC Global Power from various financial institutions, and unrealized foreign exchange loss recognized as a result of the revaluation of outstanding US dollar-denominated loans, offset by the partial settlement made by MPPCL in March 2022.

b. Increase in current maturities of long-term debt - net of debt issue costs by P20,844 million was attributable to the: (ii) reclassification from noncurrent of the Group's term loans maturing in January, March and April 2023 amounting to US$149 million, US$500 and US$15 million, respectively; (ii) unrealized foreign exchange loss recognized on the revaluation of US dollar-denominated loans; and (iii) partly offset by the redemption by SMC Global Power of its Series H Bonds amounting to P13,845 million in April 2022, and payments of principal amortizations made by MPPCL, SCPC and SMCPC in the first half of 2022.

c. Increase in accounts payable and accrued expenses by P17,184 million was mainly attributable to higher outstanding trade payables of IPPA entities and SCPC for energy fees, power and coal purchases as spot and coal continue to surge, increase in output VAT from vatable sales for the period, and additional payables recognized for the Mariveles Power Plant construction.

d. Increase in deferred tax liabilities by P1,977 million was due primarily to higher provision for deferred income tax expense recognized by the IPPA entities (SMEC and SPDC) on the difference of monthly fixed payments to PSALM over lease-related expenses.

e. Increase in other noncurrent liabilities by P717 million was mainly due to recognition of retention payables relating to the Group's construction projects.

f. Increase in income tax payable by P45 million was primarily due to higher taxable income for the period of MPPCL.

g. Decrease in long-term debt - net of current maturities and debt issue costs by P16,303 million was due to the reclassification to current of the US$15 million and US$149 million term loans of MPPCL and US$500 million term loans of SMC Global Power that will mature in the first half of 2023. This was partly offset by the US$200 million and US$100 million term loans availed by SMC Global Power in January and May 2022, respectively, and unrealized foreign exchange loss for the revaluation of US dollar-denominated loans.

h. Decrease in lease liabilities (including current portion) by P9,489 million was mainly on account of lease payments made by the IPPA entities to PSALM.

The Group's consolidated total equity as at June 30, 2022 amounted to P241,540 million, lower by 4% or P10,188 million than the December 31, 2021 balance of P251,728 million. The decrease is accounted for as follows:

a. Decrease in retained earnings by P10,397 million was mainly attributable to distributions to SPCS and RPS holders and the net loss recognized for the period.

b. Increase in capital stock by P188 million was due to the collection of subscription receivable of SMC Global Power from San Miguel Corporation.

2021 vs. 2020

In Millions	**June 30, 2021**	December 31, 2020	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis **2021**	2020
Cash and cash equivalents	**P119,006**	P110,718	P8,288	7%	**19%**	18%
Trade and other receivables - net	**36,733**	36,162	571	2%	**6%**	6%
Inventories	**6,098**	5,582	516	9%	**1%**	1%
Prepaid expenses and other current assets	**27,423**	24,916	2,507	10%	**4%**	4%
Total Current Assets	**189,260**	177,378	11,882	7%	**30%**	29%
Investments and advances - net	**10,252**	9,957	295	3%	**2%**	2%
Property, plant and equipment - net	**183,021**	171,415	11,606	7%	**29%**	28%
Right-of-use assets - net	**160,044**	162,313	(2,269)	(1%)	**25%**	27%
Deferred exploration and evaluation costs	**716**	715	1	0%	**0%**	0%
Goodwill and other intangible assets - net	**72,886**	72,858	28	0%	**12%**	12%
Deferred tax assets	**1,465**	1,646	(181)	(11%)	**0%**	0%
Other noncurrent assets	**15,561**	13,734	1,827	13%	**2%**	2%
Total Noncurrent Assets	**443,945**	432,638	11,307	3%	**70%**	71%
Total Assets	**P633,205**	P610,016	P23,189	4%	**100%**	100%
Loans payable	**P1,708**	P1,681	P27	2%	**0%**	0%
Accounts payable and accrued expenses	**44,940**	40,279	4,661	12%	**7%**	7%
Lease liabilities - current portion	**25,123**	24,007	1,116	5%	**4%**	4%
Income tax payable	**193**	10	183	1,830%	**0%**	0%
Current maturities of long-term debt - net of debt issue costs	**27,227**	22,722	4,505	20%	**4%**	4%
Total Current Liabilities	**99,191**	88,699	10,492	12%	**15%**	15%
Long-term debt - net of current maturities and debt issue costs	**201,970**	196,831	5,139	3%	**32%**	32%
Deferred tax liabilities	**18,259**	19,456	(1,197)	(6%)	**3%**	3%
Lease liabilities - net of current portion	**63,767**	75,504	(11,737)	(16%)	**10%**	12%
Other noncurrent liabilities	**4,132**	3,222	910	28%	**1%**	1%
Total Noncurrent Liabilities	**288,128**	295,013	(6,885)	(2%)	**46%**	48%
Total Liabilities	**387,319**	383,712	3,607	1%	**61%**	63%

Forward

In Millions	**June 30, 2021**	December 31, 2020	Horizontal Analysis Increase (Decrease) Amount	%	Vertical Analysis **2021**	2020
Equity Attributable to Equity Holders of the Parent Company						
Capital stock	**P1,062**	P1,062	-	0%	**0%**	0%
Additional paid-in capital	**2,490**	2,490	-	0%	**0%**	0%
Senior perpetual capital securities	**160,418**	132,200	28,218	21%	**26%**	22%
Redeemable perpetual capital securities	**32,752**	32,752	-	0%	**5%**	5%
Undated subordinated capital securities	**-**	13,823	(13,823)	(100%)	**0%**	2%
Equity reserves	**(4,383)**	(4,228)	(155)	(4%)	**(1%)**	0%
Retained earnings	**52,541**	47,179	5,362	11%	**9%**	8%
	244,880	225,278	19,602	9%	**39%**	37%
Non-controlling Interests	**1,006**	1,026	(20)	(2%)	**0%**	0%
Total Equity	**245,886**	226,304	19,582	9%	**39%**	37%
Total Liabilities and Equity	**P633,205**	P610,016	P23,189	4%	**100%**	100%

The Group's consolidated total assets as at June 30, 2021 amounted to P633,205 million, higher by 4% or P23,189 million than December 31, 2020 balance of P610,016 million. The increase was attributable to the following factors:

a. Increase in property, plant and equipment by P11,606 million was mainly due to additional construction costs incurred for the Mariveles Power Plant and BESS projects.

b. Increase in cash and cash equivalents by P8,288 million was due mainly to the (i) net proceeds from the issuance of US$600 million SPCS on June 9, 2021; (ii) additional term loans drawn by SMC Global Power, and offset by (iii) redemption of the US$300 million Undated Subordinated Capital Securities ("USCS") in February 2021; payments of: (iv) distributions to holders of RPS, USCS and SPCS by SMC Global Power; and (v) maturing long-term borrowings of the Group.

c. Increase in prepaid expenses and other current assets by P2,507 million was mainly due to higher restricted cash balances set aside by SCPC and SMCPC for debt servicing requirements and advance payments to suppliers by MPPCL and SMCPC.

d. Increase in other noncurrent assets by P1,827 million was due mainly to advance payments to contractors of the BCCPP project, offset by application of advances to progress billings for the ongoing construction of the Mariveles Power Plant and of MPPCL's BESS and other projects.

e. Increase in inventories by P516 million was mainly due to higher average price for coal inventories, with the rising coal indices, and the purchase of spare parts in preparation for the upcoming planned maintenance of Limay and Davao Greenfield Power Plants.

f. Decrease in deferred tax assets by P181 million was due primarily to the impact of CREATE Law which reduced the corporate income tax rate from 30% to 25% thereby decreasing the deferred income tax recognized on unrealized foreign exchange losses of MPPCL and on allowance for probable losses of APEC.

The Group's consolidated total liabilities as at June 30, 2021 amounted to P387,319 million, 1% or P3,607 million slightly higher than the December 31, 2020 balance of P383,712 million. The major items accounting for the increase are as follows:

a. Increase in accounts payable and accrued expenses by P4,661 million was mainly due to the additional payables recognized for the Mariveles Power Plant construction, for coal and power purchases and higher output taxes of the Group.

b. Increase in long-term debt - net of debt issue costs (including current maturities) by P9,644 million was mainly attributable to: (i) various term loans availed by SMC Global Power; (ii) foreign exchange loss recognized on the translation of US dollar-denominated borrowings, offset by payments of maturing long-term borrowings by MPPCL, SCPC, SMCPC and SMC Global Power.

c. Increase in other noncurrent liabilities by P910 million was mainly due to the recognition of retention payable for the ongoing construction projects of the Group.

d. Increase in income tax payable by P183 million was attributable mainly to the second quarter income tax payable of MPPCL.

e. Decrease in lease liabilities (including current portion) by P10,621 million was mainly on account of lease payments made by the IPPA entities to PSALM.

f. Decrease in deferred tax liabilities by P1,197 million was due primarily to the impact of CREATE Law which reduced the corporate income tax rate from 30% to 25% thereby decreasing the deferred income tax recognized by the IPPA entities on the difference of monthly fixed payments to PSALM over lease-related expenses.

The Group's consolidated total equity as at June 30, 2021 amounted to P245,886 million, higher by 9% or P19,582 million than the December 31, 2020 balance of P226,304 million. The increase is accounted for as follows:

a. Increase in SPCS by P28,218 million was due to the issuance by SMC Global Power of US$600 million SPCS on June 9, 2021 which was used primarily for investments in the 1,313.1 MW BCCPP and related facilities and for general corporate purposes.

b. Increase in retained earnings by P5,362 million was mainly attributable to the net income recognized for the period reduced by distributions to SPCS, RPS and USCS holders.

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

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(in Millions)	June 30	
	2022	2021
Net cash flows provided by (used in) operating activities	**(P5,279)**	P17,617
Net cash flows used in investing activities	**(23,021)**	(14,042)
Net cash flows provided by (used in) financing activities	**(2,258)**	3,568

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

Net cash flows used in investing activities are as follows:

(in Millions)	June 30	
	2022	2021
Decrease in other noncurrent assets	**P769**	P2,451
Additions to deferred exploration and development costs	**(6)**	(1)
Additions to intangible assets	**(169)**	(69)
Additions to investments and advances	**(661)**	(421)
Advances paid to suppliers and contractors	**(4,139)**	(4,550)
Additions to property, plant and equipment	**(18,815)**	(11,452)

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

(in Millions)	June 30	
	2022	2021
Proceeds from short-term borrowings	**P30,756**	P6,743
Proceeds from long-term debt	**15,506**	21,885
Collection of subscription receivable	**188**	-
Proceeds from issuance of SPCS	**-**	28,218
Distributions paid to USCS holders	**-**	(656)
Redemption of USCS	**-**	(14,582)
Payment of stock issuance costs	**(139)**	-
Distributions paid to RPS holder	**(1,052)**	(980)
Distributions paid to SPCS holders	**(7,305)**	(5,239)
Payments of short-term borrowings	**(7,564)**	(6,744)
Payments of lease liabilities	**(14,903)**	(11,867)
Payments of long-term debts	**(17,745)**	(13,210)

The effect of exchange rate changes on cash and cash equivalents amounted to P1,049 million and P1,145 million on June 30, 2022 and 2021, respectively.

V. KEY PERFORMANCE INDICATORS

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

LIQUIDITY RATIO

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

	Conventional		***Adjusted*** [1]	
(in Millions Peso)	**June 2022**	December 2021	**June 2022**	December 2021
(A) Current Assets	**161,038**	156,470	**161,038**	156,470
(B) Current Liabilities	**168,093**	109,472	**149,864**	87,876
Current Ratio (A) / (B)	**0.96**	1.43	**1.07**	1.78

(1) Current portion of lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on lease are pass-through charges billable to customers. As at June 30, 2022 and December 31, 2021, current portion of lease liabilities to PSALM amounted to P18,229 million and P21,596 million, respectively.

SOLVENCY RATIO

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

Per relevant Loan Covenants of SMC Global Power

(in Millions Peso)	**June 2022**	December 2021
(A) Net Debt *[2]*	**231,524**	184,001
(B) Total Equity *[3]*	**236,997**	247,603
Net Debt-to-Equity Ratio (A) / (B)	**0.98**	0.74

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

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

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

(in Millions Peso)	Conventional		Adjusted [4]	
	June 2022	December 2021	**June 2022**	December 2021
(A) Total Assets	**664,301**	635,724	**563,400**	483,896
(B) Total Equity	**241,540**	251,728	**241,540**	251,728
Asset-to-Equity Ratio (A) / (B)	**2.75**	2.53	**2.33**	1.92

(4) Carrying amount of the IPPA power plants, in relation to the IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding lease liabilities. As at June 30, 2022 and December 31, 2021, the carrying amount of the IPPA power plant assets amounted to P100,901 million and P151,828 million, respectively.

PROFITABILITY RATIO

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

(in Millions Peso)	June 2022	December 2021
(A) Net Income [5]	**1,879**	15,978
(B) Total Equity	**241,540**	251,728
Return on Equity (A) / (B)	**0.8%**	6.3%

(5) Annualized for quarterly reporting.

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

Per relevant Loan Covenants of SMC Global Power

(in Millions Peso)	June 2022	December 2021
(A) EBITDA [6]	**28,464**	33,542
(B) Interest Expense [7]	**12,508**	13,405
Interest Coverage Ratio (A) / (B)	**2.28**	2.50

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

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

OPERATING EFFICIENCY

Volume Growth = $\frac{\textbf{Current Period Offtake Volume}}{\textbf{Prior Period Offtake Volume}} - 1$

(in GWh)	Periods Ended June 30	
	2022	2021
(A) Current Period Offtake Volume	**14,336**	13,553
(B) Prior Period Offtake Volume	**13,553**	12,924
Volume Growth [(A / B) – 1]	**5.8%**	4.9%

Revenue Growth = $\frac{\textbf{Current Period Revenue}}{\textbf{Prior Period Revenue}} - 1$

(in Millions Peso)	Periods Ended June 30	
	2022	2021
(A) Current Period Revenue	**102,581**	60,279
(B) Prior Period Revenue	**60,279**	57,177
Revenue Growth [(A / B) – 1]	**70.2%**	5.4%

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

(in Millions Peso)	Periods Ended June 30	
	2022	2021
(A) Income from Operations	**12,750**	17,158
(B) Revenues	**102,581**	60,279
Operating Margin (A) / (B)	**12.4%**	28.5%

VI. OTHER MATTERS

a. Fuel Commodity Price Volatility

In January 2022, the Government of Indonesia implemented a month-long ban on the exportation of its coal which reduced the overall availability of coal fuel in the commodities market. Consequently, international price indices for coal such as the GC Newc Index surged beyond the expected trajectory of historical prices based on long-term fundamental factors pertinent to the coal commodity market. Barely a few weeks after the partial lifting of the foregoing coal export ban, Russia commenced its invasion of Ukraine on February 24, 2022. This worsened the short-term outlook on coal prices as reflected in the further spikes in coal prices, with GC Newc Index reaching levels beyond US$400/MT from May onwards. With Russia-Ukraine conflict continuing to this day, coal prices remain at elevated levels but continue to show a “backwardated” forward curve which strongly suggests a more bearish outlook on coal prices in the medium term and in the long term.

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

b. Malampaya Gas Supply Restrictions

The Ilijan Power Plant uses natural gas from the Malampaya gas facility in Palawan (“Malampaya”) as fuel for its power generation. As early as March 2021, the National Power Corporation issued notices of gas supply restrictions from Malampaya. This significantly reduced the net generation of the Ilijan Power Plant to 60% of its total installed capacity for the remainder of 2021. The Group was constrained to use its available capacity from its portfolio of generation assets, and in certain cases, purchase from the WESM spot market, to augment its generation from the Ilijan Power Plant to meet its bilateral demand from its customers, primarily from Meralco pursuant to its power supply agreements. This reduced the gross margins of the Group in cases where the cost of replacement supply exceeds the power generation costs from the Ilijan Power Plant using Malampaya natural gas. This accounts for a significant portion in the reduction of the Group’s gross margins and operating income in 2022 and 2021 from the comparative numbers in prior periods.

On June 23, 2022, SPPC entered into a gas supply agreement for 70.26 Petajoules of banked gas with the Philippine National Oil Company ("PNOC") at a daily volume of dispatch sufficient to run the Ilijan Power Plant at 45% to 75% plant factor. This volume of gas is adequate and expected to support the Ilijan Power Plant’s fuel requirements until February 2024. To date, the delivery of the banked gas by PNOC has yet to commence.

In addition to the banked gas, SPPC will commence purchase of commercial LNG for the Ilijan Power Plant once the LNG Terminal, currently being built and to be operated by Atlantic Gulf and Pacific Co. beside the Ilijan Power Plant, commences operation later this year.

c. Joint Motions filed by SMEC, SPPC and Meralco before the ERC
SMEC and SPPC together with Meralco have filed joint motions with the ERC requesting for contract price adjustments to recover incremental fuel costs arising from change in circumstances under their respective PSAs amounting to a total of approximately P5,264 million for the January to May 2022 billing periods. The amounts have been validated and confirmed by Meralco pursuant to such claim.

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

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

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

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

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

e. Commitments
The outstanding purchase commitments of the Group amounted to P134,750 million as at June 30, 2022. Amounts authorized but not yet disbursed for capital projects is approximately P133,668 million as at June 30, 2022.

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

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

g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation, except those stated in Item II, discussion of Financial Performance.

h. 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.

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

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

k. 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.