SMC Global Power Holdings Corp.

155 EDSA, Wack-Wack, Mandaluyong City, Philippines

Shelf Registration in the Philippines of
Fixed Rate Bonds in the aggregate principal amount
of up to ₱35,000,000,000.00

to be offered within a period of three (3) years
at an Issue Price of 100% of Face Value
to be listed and traded in the
Philippine Dealing & Exchange Corp.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

The date of this Prospectus is December 8, 2017

SMC Global Power Holdings Corp.
155 EDSA, Wack-Wack, Mandaluyong City, Philippines
Telephone Number: (632) 702 4500

This Prospectus ("this Prospectus" and, as the context may require, the term includes the relevant Offer Supplement) relates to the shelf registration and each offer and sale in the Philippines within the Shelf Period as defined below (each "**Offer**") of fixed rate bonds (the "**Bonds**") with an aggregate principal amount of Thirty Five Billion Pesos (₱35,000,000,000) by SMC Global Power Holdings Corp. (the "**Company**", the "**Issuer**" or "**SMC Global Power**") to be listed and traded in the Philippine Dealing & Exchange Corp. ("**PDEx**").

The Bonds shall be issued in tranches within a period of three (3) years from the effective date of the Registration Statement of the Bonds, subject to applicable regulations (the "**Shelf Period**"). The offer and sale of the Bonds, including the terms and conditions for each tranche shall be at the sole discretion of the Company. The specific terms of the Bonds for each tranche will be determined by the Company considering the prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (the "**Offer Supplement**").

For each tranche of the Bonds, the Company shall distribute an Offer Supplement along with this Prospectus. The relevant Offer Supplement will contain the final terms for an offer of the Bonds and must be read in conjunction with this Prospectus and other Bond Agreements. Full information on the Issuer and such offer of the Bonds is only available through this Prospectus, the relevant Offer Supplement, and the other Bond Agreements. All information contained in this Prospectus are deemed incorporated by reference in an Offer Supplement.

The use of proceeds for each Offer will be set out in the relevant Offer Supplement.

On October 6, 2017, the Company filed an application with the Philippine Securities and Exchange Commission ("**SEC**") to register the Bonds under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) ("**SRC**").

The Company will apply for the listing of the Bonds in the PDEx. However, there is no assurance that such a listing will be achieved either before or after the relevant issue date of the Bonds being offered at a particular time or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing will be subject to the Company's execution of a listing agreement with PDEx that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

The Bonds will be offered to the public through underwriters that may be engaged by the Company for each Offer (the **Underwriters**) (as such term is defined in the "**Definition of Terms**" section of this Prospectus). The Company reserves the right to withdraw any offer and sale of the Bonds at any time and the Underwriters reserve the right to reject any application to purchase the Bonds, in whole or in part, and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. If an offer of the Bonds is withdrawn or discontinued, the Company shall subsequently notify the SEC and, as applicable, the PDEx. The Underwriters, any participating underwriter, co-manager and selling agent for any offer of the Bonds may acquire for their own account a portion of the Bonds.

No person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Underwriters.

The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and Offer Supplement and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

Each investor in the Bonds must comply with all laws applicable to it and must obtain the necessary consent, approvals or permission for its purchase, offer or sale under the laws and regulations in force in any jurisdiction to which it is subject, and neither the Company nor any of the Underwriters shall have any responsibility therefore.

The Company is organized under Philippine Law. The Company and its subsidiaries are allowed under Philippine laws to declare dividends, subject to certain requirements. These requirements include, for example, that the Board is authorized to declare dividends only from its unrestricted retained earnings. Dividends may be payable in cash, shares or property, or a combination of the three, as the Board shall determine. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of the outstanding capital stock of the Company. The Board may not declare dividends which will impair its capital. The Company and its subsidiaries declare dividends as determined by the Board, taking into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments and acquisitions and appropriate reserves and working capital. For a more detailed discussion on the use of proceeds, see "Use of Proceeds" of this Prospectus.

The information contained in this Prospectus relating to the Company, its operations and those of its subsidiaries and affiliates has been supplied by the Company, unless otherwise stated herein. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus relating to it, its operations and those of its subsidiaries and affiliates is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Company hereby accepts full and sole responsibility for the accuracy information contained in this Prospectus with respect to the same.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstance, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

No representation or warranty, express or implied, is made or given by the Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise, representation or warranty by the Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers. This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Bonds.

This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any of the securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Before making an investment decision, investors must rely on their own examination of the Company and the terms of the Offer, including the risks involved. These risks include:

- risks related to the Company's business;
- risks relating to the Philippines;
- risks relating to the Offer and the Bonds.

There can be no assurance in respect of: (i) whether the Company would issue such debt securities at all; (ii) the size or timing of any individual issuance or the total issuance of such debt securities; or (iii) the specific terms and conditions of any such issuance. Any decision by the Company to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within the control of the Company, including but not limited to: prevailing interest rates, the financing requirements of business and prospects of the Company, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several factors inherent to the Company such as risks pertinent to the industry and operational risks relevant to the Philippines *vis-à-vis* risks inherent to the Bonds, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds.

For a more detailed discussion on the risks in investing in the Bonds, see the section entitled "Risk Factors", which, while not intended to be an exhaustive enumeration of all the risks, must be considered in connection with any investment in or any purchase of the Bonds.

The Company's financial statements are reported in Pesos and are prepared based on its accounting policies, which are in accordance with the Philippine Financial Reporting Standards ("**PFRS**") issued by the Financial Reporting Standard Council of the Philippines. PFRS include statements named PFRS and Philippine Accounting Standards, and Philippines Interpretations from International Financial Reporting Interpretations Committee.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

The Company's fiscal year begins on January 1 and ends on December 31 of the year. R.G. Manabat & Co., a member firm of KPMG ("**R.G. Manabat & Co.**"), the Company's external auditor, has audited and rendered an unqualified audit reports on the Company's financial statements as of and for the years ended December 31, 2014, 2015 and 2016.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and neither the Company nor any of the Underwriters makes any representation as to the accuracy and completeness of such information.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.

SMC GLOBAL POWER HOLDINGS CORP.

By:

Ramon S. Ang
Chairman & Chief Executive Officer and
President & Chief Operating Officer

SUBSCRIBED AND SWORN to before me this DEC 0 8 2017, affiant exhibiting to me his Philippine Passport with No. EC3542718 issued on February 27, 2015, at DFA-Manila, Philippines.

Doc. No. : 13;
Page No. : 4;
Book No. : I;
Series of 2017.

JULIE ANN B. DOMINO-PABLO
APPOINTMENT NO-0470-16
Notary Public for Mandaluyong City
Until December 31, 2017
No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City
Roll No. 57163
PTR No. 3015964; 1/4/17; Mandaluyong City
IBP Lifetime Member No. 012880; 8/17/14; Quezon City Chapter

No representation or warranty, express or implied, is made by the Company and the Underwriters, regarding the legality of an investment in the Bonds under any legal, investment or similar laws or regulations. This Prospectus is not investment, legal, or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds. In making any investment decision regarding the Bonds, prospective investors must rely on their own examination of the Company and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer is prohibited.

Conventions which apply to this Prospectus

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the Company are to the Company and its subsidiaries and affiliates (or the Company and any one or more of its subsidiaries or affiliates, as the context may require). All references to the "**Philippines**" are references to the Republic of the Philippines. All references to the "**Government**" are to the national and local government of the Philippines, including any of its departments, agencies, or other instrumentalities.

The items expressed in the "Definition of Terms" may be defined otherwise by appropriate government agencies or regulations from time to time, or by conventional or industry usage.

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FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMC Global Power to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which SMC Global Power will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC Global Power to successfully implement its strategies;
- the ability of SMC Global Power to anticipate and respond to consumer trends;
- changes in availability of fuel supply used in the power generation of the SMC Global Power Group;
- the ability of the SMC Global Power Group to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the US Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements; and
- competition in the power industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMC Global Power to differ materially include, but are not limited to, those disclosed under “Risk Factors and Other Considerations” and elsewhere in this Prospectus.

These forward-looking statements speak only as of the date of this Prospectus. SMC Global Power and the Underwriters expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMC Global Power with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the expectations and projections of the Issuer for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “may”, “plan”, “intend”, “will”, “shall”, “should”, “would” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs and intentions of the management of SMC Global Power as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors and Other Considerations” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements.

DEFINITION OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below:

ACA	Automatic Cost Adjustment Mechanism.
Actual Energy Generated	Actual output of the power plant measured in GWh, MWh or KWh attributable to the contracted capacity of the Sual Power Plant, San Roque Power Plant or Ilijan Power Plant, as applicable.
AFP	Armed Forces of Philippines.
AHC	Angat Hydropower Corporation.
AHEPP	Angat Hydroelectric Power Plant.
ALECO	Albay Electric Cooperative, Inc.
Allocation Plan	Agreed on procedure for application, acceptance, or rejection of the Applications to Purchase, whether in whole or in part.
APEC	Albay Power and Energy Corp.
ASEAN	The Association of Southeast Asian Nations, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
Average Net Dependable Capacity	Average for any given period of the Net Dependable Capacity within that period, expressed in MW.
Availability Factor	Ratio, in percent, equal to (1)(a) the number of hours in a period (e.g., a month or a year) less (b) the average number of hours of planned and unplanned outages during that period, divided by (2) the number of hours in that period.
Auxiliary Unit	One of the three 6 MW capacity hydroelectric generators of AHEPP.
Bayan	Bayan Resources TBK.
BER	Basic Energy Rate.
BERA	Basic Energy Rate Adjustment.
Board of Directors or Directors	Board of Directors of SMC Global Power.
BOI	Board of Investments.
Bonanza Energy	Bonanza Energy Resources, Inc.

BOT	Build-Operate-Transfer.
BSP	Bangko Sentral ng Pilipinas.
Business Day	means a day, other than Saturday, Sunday or legal holiday, on which the facilities of the Philippine banking system are open and available for clearing, and banks are open for business in Metro Manila, Philippines.
Captive Market	A market of end-users who do not have a choice of their supplier of electricity.
CFB	Circulating fluidized bed.
Clean Air Act	The Philippine Clean Air Act of 1999.
Clean Water Act	The Philippine Clean Water Act of 2004.
COC	Coal Operating Contract.
COD	Commercial Operations Date.
Company, Issuer, or SMC Global Power	SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries.
Contestable Customers	End-users who have a choice on their supplier of electricity as may be certified by the ERC.
Contestable Market	A market of end-users who have a choice on their supplier of electricity.
Daguma Agro	Daguma Agro Minerals, Inc.
Davao Greenfield Power Plant	The 2 x 150 MW Davao coal-fired power plant.
DENR	Department of Environment and Natural Resources.
Distribution Code	The Philippine Distribution Code.
DOC	ASEAN-China Declaration on the Conduct of Parties in the South China Sea.
DOE	Department of Energy of the Philippines.
DOJ	Department of Justice of the Philippines.
DOLE	Department of Labor and Employment.
DU	Distribution Utility.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
EC	Electric Cooperatives.

ECA	Energy Conversion Agreement.
ECC	Environmental Compliance Certificate.
EIS	Environmental Impact Statement.
EMB	Environmental Management Bureau.
EMF	Environmental Monitoring Fund.
EMP	Environmental Management Plan.
EPIRA	Philippine Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001.
EPC	Engineering, Procurement and Construction.
ERC . . . . ……	Energy Regulatory Commission of the Philippines.
ER Claim	Equivalent Relief Claim.
ERC Order	The order dated March 3, 2014 issued by the ERC which voided the WESM prices for the November and December 2013 billing months and imposed recalculated prices to be calculated by PEMC.
FIA . . . . …	Foreign Investment Act of 1991 of the Philippines.
GDP	Gross Domestic Product.
Government	The Government of the Philippines.
Grid Code	Philippine Grid Code.
GWh	Gigawatt hours, a unit of electrical energy equivalent to 1,000 MWh.
Ilijan ECA	The ECA under which NPC is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant.
Ilijan IPPA Agreement	The IPPA agreement dated May 11, 2010 between PSALM and SPPC with the conformity of the NPC relative to the administration of the IPP contract of NPC for the Ilijan Power Plant.
Ilijan Power Plant	Natural gas fired combined cycle power plant with contracted capacity of 1,200 MW located in Ilijan, Batangas.
IMEM . . . .…...	Interim Mindanao Electricity Market.

Installed Capacity	Gross maximum dependable capacity of a power plant, expressed in MW, i.e., the maximum amount of power that can be generated by the power plant.
IPP	Independent Power Producer.
IPPA	Independent Power Producer Administrator.
IPPA Agreement	Independent Power Producer Administration Agreement.
IPPA Power Plants	The Sual Power Plant, the San Roque Power Plant and the Ilijan Power Plant.
IRR	Implementing Rules and Regulations of EPIRA promulgated on February 27, 2002.
ISO	International Organization for Standardization.
Issue Date	December 22, 2017 for the first tranche of the Bonds or such date on which the subsequent tranches of the Bonds shall be issued by SMC Global Power to the Bondholders.
ITH . . . . …..	Income Tax Holiday.
K-Water	Korea Water Resources Corporation.
Kcal	Kilo-Calorie, a unit of heat energy.
KEILCO	KEPCO Ilijan Corporation, owner of the Ilijan Power Plant, which is a joint venture of KEPCO, Mitsubishi Corporation and TeaM Energy.
KEPCO	Korea Electric Power Corporation.
KJ	Kilo-Joule, a unit of heat energy.
KPC	PT Kaltim Prima Coal.
kV	Kilo-Volts, a unit of voltage equivalent to 1,000 volts.
KW	Kilowatt, a unit of electrical power equivalent to 1,000 watts.
KWh	Kilowatt hours, a unit of electrical energy equivalent to 1,000 watt hours.
LGC	Philippine Republic Act No. 7160, or the Local Government Code.
LGU . . . . …	Local Government Unit.
LHV	Lower heating value of fuel.

Limay Combined Cycle Plant	The combined cycle power plant with installed capacity at 620 MW located in Limay, Bataan which was owned by Panasia Energy.
Limay Greenfield Power Plant	The 4 x 150 MW Limay coal-fired power plant.
Limay Cogeneration Plant	The 140 MW Limay cogeneration power plant.
Luzon Grid	An interconnected network of transmission lines running through Luzon for delivering electricity.
Main Unit	One of the four 50 MW capacity main hydroelectric generators of AHEPP.
Meralco	Manila Electric Company.
MILF	Moro Islamic Liberation Front.
Mindanao Grid	An interconnected network of transmission lines running through Mindanao for delivering electricity.
MNLF	Moro National Liberation Front.
Must Pay Volume	The monthly generation payments SMC Global Power "must pay" for electricity sold up to a given volume.
MW	Megawatt, a unit of electrical power equivalent to 1,000 kilowatts.
MWh	Megawatt hours, a unit of electrical energy equivalent to 1,000 kilowatt hours.
MWSS	Metropolitan Waterworks and Sewerage System.
NEA	National Electrification Administration of the Philippines.
Negative List	Tenth Regular Foreign Investment Negative List issued by the Office of the President of the Philippines on May 29, 2015.
Net Capacity Factor	Ratio, in percent, equal to (1) actual electricity generated by a power plant in a period (net of electricity utilized to drive power plant service or auxiliaries), divided by (2)(a) number of hours in the period multiplied by (b) the contracted capacity of such power plant.
Net Dependable Capacity	Gross dependable capacity of a power plant (which may be less than Installed Capacity at any given time if technical problems are present) less the power plant capacity utilized to drive power plant station service or auxiliaries, expressed in MW.

Net Heat Rate	Heat energy required by a power plant to produce one KWh of electrical energy net of the parasitic or auxiliary loads of the power plant, usually expressed in terms of British Thermal Units/KWh, Kcal/KWh or KJ/KWh.
NGCP	National Grid Corporation of the Philippines, the system operator of the transmission grid.
NIA	National Irrigation Administration.
NPC	National Power Corporation of the Philippines.
NWRB	National Water Resources Board.
OEDC	Olongapo Electricity Distribution Company, Inc.
Offer Supplement.	The offer supplement to and which is issued along with this Prospectus setting out the terms and conditions of a particular Offer of Bonds.
Open Access	System of allowing qualified persons to use the transmission and/or distribution systems and associated facilities of distribution utilities subject to the payment of transmission and/or distribution wheeling rates approved by the ERC.
Panasia Energy	Panasia Energy Holdings Inc.
Payment Date	Each date on which payment for interest, principal, and all other payments due on the Bonds become due.
PBR	Performance Based Regulation.
PDEx	The Philippine Dealing & Exchange Corp.
PDTC	The Philippine Depository & Trust Corp.
PEMC	Philippine Electricity Market Corporation.
PFRS	Philippine Financial Reporting Standards.
Philippine peso or PhP or Pesos or ₱	The legal currency of the Republic of the Philippines.
Philippines	Republic of the Philippines.
PhilRatings	Philippine Rating Services Corporation.
PPA	Power Purchase Agreement.
PSA	Power Supply Agreement.
PSE	Philippine Stock Exchange, Inc.

PSALM	Power Sector Assets and Liabilities Management Corporation.
PSALM ER Claim	The ER Claim included in PSALM's claims against TeaM Energy.
PSC	Power Supply Contract.
PVEI	PowerOne Ventures Energy Inc.
RCOA	Retail Competition and Open Access.
RE Act	Renewable Energy Act of 2008 (Republic Act No. 9513).
Reliability Factor	Ratio, in percent, equal to (1)(a) the number of hours in a period less (b) the average unplanned outage hours in that period divided by (2) the number of hours in that period.
RES	Retail Electricity Supplier.
R.G. Manabat & Co.	R.G. Manabat & Co., a member firm of KPMG.
RPAA	Registry and Paying Agency Agreement.
RSCs	Retail Supply Contracts.
RTGS	The Philippine Payment Settlement System via Real Time Gross Settlement.
SAF	Special Action Force of the Philippine National Police.
Sanitation Code	The Code on Sanitation of the Philippines.
San Roque IPPA Agreement	The IPPA Agreement dated December 29, 2009 between PSALM and SPDC with the conformity of NPC relative to the administration of the IPP contract of NPC for the San Roque Power Plant.
San Roque Power Plant	Hydroelectric multipurpose power plant with contracted capacity of 345 MW located in San Manuel, Pangasinan.
San Roque PPA	The PPA made between SPDC and NPC dated October 11, 1997 in relation to the San Roque Power Plant.
SEC	The Securities and Exchange Commission of the Philippines.
SMEC	San Miguel Energy Corporation.
SMELC	San Miguel Electric Corp.
SPDC	Strategic Power Devt. Corp.

SPI	SMC PowerGen Inc.
SPPC	South Premiere Power Corp.
SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended.
SRPC	San Roque Power Corporation, operator of the San Roque power plant.
SSS	The Social Security System.
Sual ECA	Energy Conversion Agreement dated September 2, 2009 made between NPC and CEPA Pangasinan Electric Limited for the Coal-Fired Thermal Power Station at Sual, Pangasinan, Philippines.
Sual IPPA Agreement	The IPPA Agreement dated September 2, 2009 made between PSALM and SMEC with the conformity of NPC relative to the administration of the IPP contract of NPC for the Sual Power Plant.
Sual Power Plant	Coal-fired power plant with a contracted capacity of 1,000 MW located in Sual, Pangasinan.
Sultan Energy. . . . . …	Sultan Energy Phils. Corp.
Take-or-pay.	A type of contractual arrangement where, or the act whereby, a customer either takes a product at a certain price from the supplier, or pays the supplier a penalty.
Tax Code . . . . …	The National Internal Revenue Code of 1997.
Taxes	Any present or future taxes, including, but not limited to, documentary stamp tax, levies, imposts, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof, including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, taxes on the overall income of the underwriter or of the Bondholders, value added tax, and taxes on any gains realized from the sale of the Bonds.
TeaM Energy	TeaM Sual Corporation, owner of the Sual Power Plant, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation.
TransCo	National Transmission Corporation.
TRO . . . .… .	Temporary Restraining Order.
Trustee	Philippine National Bank – Trust Banking Group.

Underwriters	Underwriters that may be engaged by the Company for each Offer and as identified in the relevant Offer Supplement. As applicable and as may be provided in the relevant Offer Supplement, the term may also include “Lead Underwriter”, “Joint Lead Underwriters”, “Issue Manager”, “Issue Managers”, “Joint Issue Managers”, “Bookrunner”, “Bookrunners” and “Joint Bookrunners”.
Unplanned Outage	A shutdown of the plant for reasons other than planned outage. For purposes of calculating measures of power plant performance that are reported by the IPPs such as availability and reliability factors, shutdown due to (1) faults or failures in the transmission system, (2) force majeure events, (3) disruptions in fuel supply and (4) dispatch orders from the grid system operators are not included in unplanned outage.
Visayas Grid	An interconnected network of transmission lines running through Visayas for delivering electricity.
WESM	Wholesale Electricity Spot Market.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of SMC Global Power and notes relating thereto. For a discussion of certain matters that should be considered in evaluating an investment in the Bonds, see the section of this Prospectus entitled "Risk Factors and Other Considerations." Investors are recommended to read this entire Prospectus carefully.

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the Company are to the Company and its subsidiaries and affiliates (or the Company and any one or more of its subsidiaries or affiliates, as the context may require).

BUSINESS

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 3,063 megawatts ("**MW**") of combined capacity as of June 30, 2017 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities under Energy Regulatory Commission of the Philippines ("**ERC**") Resolution No. 05, Series of 2017, SMC Global Power, through its Independent Power Producer Administrator ("**IPPA**") and Independent Power Producer ("**IPP**") subsidiaries, has a 15% market share of the power supply of the National Grid, a 20% market share of the Luzon Grid and a 5% market share of the Mindanao Grid, in each case as of June 30, 2017[1]. SMC Global Power entered the power industry in 2009 following the acquisition of IPPA rights in privatization auctions conducted by the Government. Under the IPPA business model, SMC Global Power, through its subsidiaries San Miguel Energy Corporation ("**SMEC**"), Strategic Power Devt. Corp. ("**SPDC**"), and South Premiere Power Corp. ("**SPPC**"), gained the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Wholesale Electricity Spot Market ("**WESM**").

SMC Global Power, through SMEC, SPDC and SPPC, controls the 2,545 MW combined contracted capacity of the Sual, San Roque and Ilijan Power Plants, respectively (collectively, the "**IPPA Power Plants**") through their Independent Power Producer Administration Agreements ("**IPPA Agreements**"). SMEC acquired the IPPA rights for the Sual Power Plant in November 2009, SPDC for the San Roque Power Plant in January 2010 and SPPC for the Ilijan Power Plant in June 2010. The Sual Power Plant is a coal-fired thermal power plant, the San Roque Power Plant is a hydro-electric power plant, and the Ilijan Power Plant is a natural gas-fired combined cycle power plant.

In September 2013, SMC Global Power through SMC PowerGen, Inc ("**SPI**") acquired 100% of the 140 MW Limay Cogeneration Power Plant (the "**Limay Cogeneration Plant**") from Petron Corporation. On December 23, 2016, the Limay Cogeneration Plant was sold back by SPI to Petron Corporation. In November 2014, SMC Global Power through its subsidiary, PowerOne Ventures Energy Inc. ("**PVEI**") acquired a 60% stake in Angat Hydropower Corporation ("**AHC**"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant ("**AHEPP**"). In October 2013, SMC Global Power through SMC Consolidated Power Corporation ("**SCPC**"), a wholly-owned subsidiary, commenced construction works for its 4 x 150 MW coal-fired power plant in Limay, Bataan (the "**Limay Greenfield Power Plant**"). The second 2 x 150 MW of the Limay Greenfield Power Plant was used to be owned by another subsidiary, the Limay Premiere Power Corp., but this was later transferred to SCPC in June 2017. Unit 1 with a rated capacity of 150 MW of the Limay Greenfield Power Plant attained commercial operations on May 26, 2017. SCPC was

[1] Market share is computed by dividing the total capacity of the Company (3,063,000 KW) with the installed generating capacity of Luzon Grid, Mindanao Grid or National Grid (14,570,958 KW, 3,021,117 KW and 20,669,924 KW, respectively) based on data provided under ERC Resolution No. 05 Series of 2017.

granted a retail electricity supplier ("**RES**") license by the ERC on August 24, 2016, which gave it the ability to directly contract with industrial customers. As of June 30, 2017, the total capacity of the subsidiaries of SMC Global Power is 3,063 MW including the entire capacity of the AHEPP.

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

In April 2013, SMC Global Power, through SMC Power Generation Corp. ("**SPGC**"), acquired a 35% equity stake in Olongapo Electricity Distribution Company, Inc. ("**OEDC**"). In October 2013, SMC Global Power entered into a 25-year concession agreement with Albay Electric Cooperative, Inc. ("**ALECO**"). It became effective upon the confirmation of the National Electrification Administration of the Philippines ("**NEA**") in November 2013. SMC Global Power organized and established a wholly-owned and controlled subsidiary, Albay Power and Energy Corp. ("**APEC**"), which assumed, as the concessionaire, all the rights and interests and performs the obligations of SMC Global Power under the concession agreement with ALECO.

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, SMC Global Power, through its subsidiaries, sold 14,891 GWh, 14,714 GWh, 15,758 GWh, 8,502 GWh, and 7,648 GWh of power pursuant to offtake agreements and 2,110 GWh, 1,844 GWh, 1,588 GWh, 725 GWH, and 757 GWh of power through the WESM, respectively. During the years ended December 31, 2014, 2015 and 2016, and the six months ended June 30, 2016 and 2017, SMC Global Power, through its subsidiaries, purchased 477 GWh, 690 GWh, 760 GWh, 365 GWh, and 313 GWh of power from the WESM, respectively.

For the year ended December 31, 2016, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱77,972 million, ₱4,151 million and ₱10,475 million, respectively, and for the six months ended June 30, 2017, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱40,697 million, ₱2,655 million, and ₱6,991 million, respectively, while as of December 31, 2016 and June 30, 2017, SMC Global Power had total consolidated assets of ₱333,949 million and ₱360,632 million, respectively.

The experience of SMC Global Power, through its subsidiaries, in acting as an IPPA and its ownership of the Limay Cogeneration Plant and the AHEPP have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it has a strong platform to participate in the expected future growth of the Philippine power market, through both the development of greenfield power plants and the acquisition of existing power generation capacity.

SMC Global Power, as the project sponsor, initiated two greenfield power projects in July 2013 and October 2013 with the construction of the 2 x 150 MW Davao coal-fired power plant (the "**Davao Greenfield Power Plant**") and the 4 x 150 MW Limay Greenfield Power Plant, respectively. SMC Global Power, through Mariveles Power Generation Corporation ("**MPGC**"), will also construct an additional greenfield coal-fired power project in Mariveles, Bataan with an initial capacity of 4 x 150 MW. SMC Global Power is considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand. With the increased development of greenfield power plants from 2016 onwards, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and Company-operated IPPs. In order to continue its strategic acquisitions of existing power generation capacity, SMC Global Power intends to participate in the bidding of selected National Power Corporation of the Philippines ("**NPC**")-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, and privately owned plants with commercial and technical profile that fit its existing portfolio of power assets.

Furthermore, to the extent viable and allowed under prevailing industry regulations, SMC Global Power is open to opportunities for vertical integration by expanding into businesses along the power sector value chain that complement its current power generation operations. In particular, SMC Global Power intends to pursue downstream integration by capitalizing on changes in the Philippine regulatory structure which allow the expansion into the sale of power to a broader range of customers, including retail customers. In August 2011, as part of the reorganization of the power-related businesses of San Miguel Corporation, SMC Global Power acquired from San Miguel Corporation a 100% equity interest in San Miguel Electric Corp. ("**SMELC**"), which holds a RES license from the ERC. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC, to enter into retail supply contracts ("**RSCs**") with end-users who have a choice on their supplier of electricity as may be certified by the ERC ("**Contestable Customers**").

SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc. ("**Bonanza Energy**"), Daguma Agro-Minerals, Inc. ("**Daguma Agro**") and Sultan Energy Phils. Corp. ("**Sultan Energy**"), also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao which, depending on prevailing global coal prices and the related logistical costs, may be tapped to eventually serve as an additional source of coal fuel for its planned and existing greenfield power plants.

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation, a diversified conglomerate founded in 1890 that is listed in the Philippine Stock Exchange, Inc. (the "**PSE**") and has interests in the food, beverage, packaging, fuel and oil, infrastructure, banking and property businesses. The relationship of SMC Global Power with San Miguel Corporation allows it to draw on the extensive business networks, local business knowledge, relationships and expertise of senior key executive officers of San Miguel Corporation.

STRENGTHS

SMC Global Power believes its competitive strengths are the following:

- leading power company in the Philippines with a strong growth platform;
- stable and predictable cash flows underpinned by long-term offtake agreements;
  flexible and diversified power portfolio;
- established and strong relationships with world class partners;
  strong parent company support;
- experienced management, operating, trading and marketing teams; and
- well-positioned to capitalize on the anticipated growth of the Philippine electricity market.

STRATEGIES

The principal business strategies of SMC Global Power are set out below:

- optimize the generation capacity of its power portfolio;
- continue to grow its power portfolio through the development and acquisition of power generation capacity;
- integrate complementary businesses; and
- leverage on commercial and operational synergies with San Miguel Corporation affiliates.

CORPORATE INFORMATION

SMC Global Power is incorporated under the laws of the Philippines. The registered office and principal place of business of SMC Global Power is located at SMC Global Power Holdings Corp., 155 EDSA, Wack-Wack, Mandaluyong City, Philippines. The telephone number of SMC Global Power is (632) 702 4500.

SUMMARY OF FINANCIAL INFORMATION

The summary of historical consolidated statement of financial position data as of December 31, 2014, December 31, 2015 and December 31, 2016 respectively and the summary of historical consolidated statement of income and cash flow data for the years ended December 31, 2014, December 31, 2015 and December 31, 2016, respectively set forth below, have been derived from, and should be read in conjunction with the audited consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Prospectus. The summary of historical consolidated statement of financial position data as of June 30, 2017 and summary historical consolidated statement of income and cash flow data for the six months ended, June 30, 2016 and June 30, 2017, respectively set forth below, have been derived from, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Prospectus. The consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2014, 2015 and 2016, respectively, were audited by R.G. Manabat & Co. The unaudited condensed consolidated interim financial statements of SMC Global Power as of and for the six months ended June 30, 2016 and June 30, 2017 were reviewed by R.G. Manabat & Co.

Unless otherwise stated, SMC Global Power has presented its consolidated financial results under PFRS. Potential investors should read the following data together with the more detailed information contained in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and the consolidated financial statements and related notes included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

CONSOLIDATED STATEMENT OF INCOME

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Revenues	84,293.6	77,506.7	77,972.4	41,071.7	40,697.1
Costs and Expenses					
Cost of power sold:					
Energy fees	30,775.9	23,224.2	20,477.9	10,529.2	11,580.2
Coal, fuel oil and other consumables .	11,945.3	10,376.6	10,046.7	5,210.9	7,085.7
Power purchases	6,045.5	8,330.6	7,836.6	3,511.0	3,760.9
Depreciation and amortization	6,143.9	6,466.4	6,164.9	3,234.4	2,607.6
Plant operations and maintenance fees	575.6	502.2	476.3	218.5	55.7
Operating expenses	2,911.9	4,904.1	6,239.7	2,626.8	2,291.6
	58,398.1	53,804.1	51,242.1	25,330.8	27,381.7
	25,895.5	23,702.6	26,730.3	15,740.9	13,315.4
Interest income	550.0	414.4	200.5	116.0	104.0
Gain on sale of property, plant and equipment	-	-	116.4	-	-
Equity in net (losses) of associates and joint venture – net	(22.3)	(528.4)	(294.8)	(100.2)	(45.4)
Interest expense and other financing charges	(13,168.5)	(13,130.3)	(12,354.2)	(6,086.0)	(6,909.7)
Other income (charges) - net	68.2	(5,926.0)	(6,881.8)	156.0	(1,630.2)
Income before income tax	13,322.9	4,532.3	7,516.4	9,826.7	4,834.1
Income tax expense – net	2,693.4	2,703.4	3,365.7	3,080.3	2,178.8
Net Income	10,629.5	1,828.9	4,150.7	6,746.4	2,655.3
Basic/diluted earnings per share	₱7.73	(₱0.07)	₱0.97	₱4.24	₱0.90

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			As of June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
ASSETS					
Current Assets					
Cash and cash equivalents	38,304.3	22,241.4	21,491.4	23,005.3	46,477.4
Trade and other receivables – net	18,208.4	18,473.6	22,342.9	20,313.5	22,061.7
Inventories	1,365.0	1,263.2	2,272.3	1,097.2	1,726.0
Prepaid expenses and other current assets	9,137.2	15,068.8	17,683.0	14,815.9	15,634.9
Assets held for sale	-	-	184.3	-	184.3
Total Current Assets	67,014.9	57,047.0	63,973.9	59,231.9	86,084.3
Noncurrent Assets					
Investments and advances – net	10,612.3	10,612.9	16,245.4	9,552.7	16,425.3
Property, plant and equipment – net . .	228,133.3	255,453.0	246,488.0	261,630.6	248,945.7
Deferred exploration and development costs	671.8	689.6	693.4	691.4	695.7
Intangible assets and goodwill – net . .	2,322.2	2,413.2	2,572.1	2,520.9	2,584.6
Deferred tax assets	2,779.4	2,746.0	2,955.6	2,219.9	2,555.7
Other noncurrent assets – net	2,215.4	2,248.2	1,020.8	2,876.3	3,341.1
Total Noncurrent Assets	246,734.4	274,162.9	269,975.3	279,491.8	274,548.1
	313,749.3	331,209.9	333,949.2	338,723.7	360,632.4
LIABILITIES AND EQUITY					
Current Liabilities					
Loans payable.	-	-	-	14,118.0	16,024.0
Accounts payable and accrued expenses	28,117.8	32,841.0	37,729.4	31,496.6	37,947.4
Finance lease liabilities - current portion	16,205.2	16,546.8	16,344.3	16,184.9	16,138.1
Current maturities of long term debt – net of debt issue costs.	1,330.0	15,647.2	1,040.7	1,535.9	551.9
Income tax payable	151.4	99.3	127.2	697.1	270.5
Total Current Liabilities	45,804.4	65,134.3	55,241.6	64,032.5	70,931.9
Noncurrent Liabilities					
Long-term debt - net of current maturities and debt issue costs	47,383.2	42,960.6	65,283.0	53,580.6	80,556.3
Finance lease liabilities - net of current portion	170,098.5	162,646.5	153,745.3	156,082.2	147,605.9
Deferred tax liabilities	3,043.5	3,882.9	4,785.2	4,634.9	5,489.4
Other noncurrent liabilities – net of current portion	670.5	150.3	223.5	157.9	243.2
Total Noncurrent Liabilities	221,195.7	209,640.3	224,037.0	214,455.6	233,894.8
Total Liabilities	267,000.1	274,774.6	279,278.6	278,488.1	304,826.7
Equity					
Capital stock	1,062.5	1,062.5	1,062.5	1,062.5	1,062.5
Additional paid-in capital	2,490.0	2,490.0	2,490.0	2,490.0	2,490.0
Undated subordinated capital securities	13,110.1	26,933.6	26,933.6	26,933.6	26,933.6
Reserves	785.3	785.3	785.3	785.3	785.3
Reserve for retirement plan	-	(15.6)	(26.4)	(15.7)	(26.4)
Retained earnings	29,301.3	25,179.5	23,425.6	28,979.9	24,560.7
Total Equity	46,749.2	56,435.3	54,670.6	60,235.6	55,805.7
	313,749.3	331,209.9	333,949.2	338,723.7	360,632.4

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Net cash flows provided by operating activities	32,855.8	25,251.1	31,081.6	14,029.9	15,168.7
Net cash flows used in investing activities	(6,432.7)	(34,751.1)	(7,244.9)	(9,274.7)	(7,618.8)
Net cash flows provided by (used in) financing activities.	(16,430.4)	(6,955.4)	(24,608.3)	(4,054.4)	17,326.7
Effect of exchange rate changes on cash and cash equivalents.	(813.6)	392.5	21.6	63.1	109.4
Net increase (decrease) in cash and cash equivalents.	9,179.1	(16,062.9)	(750.0)	763.9	24,986.0
Cash and cash equivalents at beginning of year	29,125.2	38,304.3	22,241.4	22,241.4	21,491.4
Cash and cash equivalents at end of period	38,304.3	22,241.4	21,491.4	23,005.3	46,477.4

The table below provides selected additional financial and operating data for the periods indicated.

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱, unless indicated otherwise)			(in millions of ₱, unless indicated otherwise)	
Net income	10,629.5	1,828.9	4,150.7	6,746.4	2,655.3
EBITDA[(1)]	10,150.2	5,458.4	10,475.4	4,504.0 [(2)]	3,940.4 [(2)]
Electricity sold (GWh)	17,001.4	16,557.7	17,354.6	9,264.0	8,356.2
of which: bilateral offtake agreements	14,891.4	14,713.7	15,766.2	8,492.8	7,598.7
of which: WESM sales	2,110.0	1,844.0	1,588.4	771.2	757.5
Electricity bought on WESM (GWh)	476.8	690.4	759.5	411.1	313.0
Average realized/paid electricity prices (₱/MWh)					
For electricity sold under bilateral offtake agreements	5,014.4	4,845.1	4,682.4	4,575.6	5,085.8
For electricity sold on WESM	4,560.5	3,371.5	2,612.1	2,869.0	2,708.8
For electricity purchased on WESM .	4,704.8	3,304.4	3,173.2	2,923.3	3,812.2
Net debt[(3)]	(2,419.7)	24,490.6	28,757.1	25,123.2	20,282.0
Ratio of net debt to EBITDA[(4)(5)]	(0.24)	4.49	2.75	4.02[(6)]	2.90[(6)]

(1) Calculated as (a) net income (excluding items between any or all of the Company and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to Power Sector Assets and Liabilities Management Corporation ("**PSALM**"). EBITDA should not be viewed in isolation or as an alternative to financial measures calculated in accordance with PFRS.

(2) EBITDA for the most recent four quarterly periods ended June 30, 2016 and 2017 is ₱6.26 billion and ₱6.99 billion, respectively.

(3) Net debt represents the sum of long-term debt – net of current maturities and debt issue costs and current maturities of long-term debt – net of debt issue costs less cash equivalents and excluding PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries.

(4) Ratio of net debt to EBITDA is computed using net debt and EBITDA, in each case excluding amounts attributable to ring-fenced subsidiaries.

(5) Starting June 30, 2017, the relevant financial covenants of the Company will be Net Debt to Equity Ratio of not more than 3.25x and Interest Coverage of not less than 2.25x. As of June 30, 2017, the resulting Net Debt to Equity Ratio was 3.10x and Interest Coverage Ratio of 2.72x.

(6) Ratio of net debt to EBITDA is computed using for the most recent four quarterly periods ended June 30, 2016 and 2017.

CALCULATION OF EBITDA

The following table presents a reconciliation of EBITDA to net income for each of the periods indicated.

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Net income	9,833.1	690.8	5,390.7	5,546.4	3,924.7
Add:					
Income tax expense	2,352.0	2,215.7	3,677.9	2,526.6	2,178.5
Finance cost	12,582.8	12,385.5	12,342.3	5,748.0	5,863.3
Interest income	(539.0)	(395.9)	(196.6)	(109.2)	(102.1)
Depreciation	5,237.0	5,271.5	6,338.7	2,688.0	2,699.3
Less:					
Foreign exchange gains (loss) . . .	(808.3)	(7,570.9)	(6,910.1)	56.0	(1.718.2)
Aggregate fixed payments made to PSALM[(1)]	20,124.0	22,280.1	23,873.3	11,839.8	12,341.5
Gain on sale of property, plant and equipment.	-	-	114.4	-	-
EBITDA[(2)]	10,150.2	5,458.4	10,475.4	4,504.0[(3)]	3,940.4[(3)]

(1) Aggregate fixed payments made to PSALM are reflected in the Statement of Cash Flows as Payments of Finance Lease Liabilities.

(2) Excludes amounts from ring-fenced subsidiaries. Subsidiaries with a project debt were nominated as a ring-fenced subsidiary in 2014, 2015 and 2016. If the amounts from ring-fenced subsidiaries were to be included, the EBITDA would amount to ₱12.8 billion, ₱9.1 billion, ₱10.1 billion, ₱7.23 billion and ₱3.98 billion for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017, respectively.

(3) EBITDA for the most recent four quarterly periods ended June 30, 2016 and 2017 is ₱6.26 billion and ₱6.99 billion, respectively.

SUMMARY OF THE OFFERING

A discussion containing the "Summary of the Offering" shall be set out in the relevant Offer Supplement. However, any such summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus and such Offer Supplement, including, but not limited to, the discussion on the "Description of the Offer Bonds" and "Plan of Distribution", and agreements executed in connection with a particular offer of Bonds as a whole. Such overview may not contain all of the information that prospective investors should consider before deciding to invest in the Bonds. Accordingly, any decision by a prospective investor to invest in the Bonds should be based on a consideration of this Prospectus, such Offer Supplement and agreements executed in connection with a particular offer of Bonds as a whole.

RISK FACTORS AND OTHER CONSIDERATIONS

An investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. This section entitled "Risk Factors and Other Considerations" does not purport to disclose all of the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors may request publicly available information on the Bonds and the Company from the SEC. Each Investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of, the securities to be invested in or the nature of risks involved in the trading of securities.

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Prospectus, including the consolidated financial statements of SMC Global Power and notes relating thereto included in this Prospectus, before making any investment decision relating to the Bonds. The occurrence of any of the events discussed below and any additional risks and uncertainties not currently known to SMC Global Power or that are currently considered immaterial could have a material adverse effect on the business, results of operations, financial condition and prospects of SMC Global Power and prospective investors may lose all or part of their investment.

The means by which the Company plans to address the risks discussed herein are principally presented in the sections of this Prospectus entitled "Description of Business - Strengths of the Company," "Description of Business - Business Strategies" and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

RISKS RELATING TO SMC GLOBAL POWER

Increased competition in the Philippine power industry

The government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC owned and controlled power generation assets, the establishment of the WESM, the start of the Retail Competition and Open Access ("**RCOA**"), and implementation of mandatory Competitive Selection Process ("**CSP**") for Distribution Utilities. Further, Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources, and may have more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. These competitors may therefore be more successful than SMC Global Power in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to a downward adjustment of tariffs, and the business, financial performance and results of operations of SMC Global Power could be adversely affected. To the extent that distribution utilities or industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakers through its generation facilities would be adversely affected.

SMC Global Power, through its subsidiaries, has a diversified portfolio which allows it to be more competitive with its supply offers. It is also managed by an experienced management team composed of experts with extensive knowledge of the Philippine power industry. Coupled with the strong shareholder support from San Miguel Corporation, this will enable SMC Global Power to sustain its position as one of the major players in the industry. Moreover, SMC Global Power also continues to cultivate its good working relationship with its offtakers which ensures continuity of its customer base.

Disruptions in fuel supply

The operations of the Sual Power Plant, Ilijan Power Plant, and Limay and Davao Greenfield Power Plants depend on the availability of fuel, in particular coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirement of the Sual Power Plant and Limay and Davao Greenfield Power Plants. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants.

There is no assurance that there will not be any interruption or disruption in, or change in terms of, the fuel supplies to these power plants, or that there will be sufficient fuel in the open market or sufficient transportation capacity available to ensure that these power plants receive sufficient fuel supplies required for their operations on a timely basis or at all. There is also no assurance that SMC Global Power, through its subsidiaries, will be able to purchase all of its required fuel supplies from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants. Such factors, which may include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants which could have material adverse effect on the business, financial condition and results of operations of SMC Global Power.

SMC Global Power, through its subsidiaries, has fuel supply agreements with recognized, reputable, and reliable domestic and international coal suppliers, such as but not limited to Glencore International AG, PT Trubaindo Coal Mining, Vitol Asia Pte. Ltd., PT Kaltim Prima Coal ("**KPC**"), Avra Commodities Pte. Ltd., Flame Asia Corporate Pte. Ltd., PT Adaro Indonesia, and PT Bara Tabang ("**Bayan**") for its power plants. The diversity of coal suppliers of the Company provides assurance of fuel supply limiting any issues with any specific region or supplier. For natural gas, NPC/PSALM is contractually obligated to deliver supply of fuel to the Ilijan Power Plant under the Ilijan IPPA Agreement. Neither SMC Global Power, nor SPPC, has direct relationship with the supplier of natural gas. However, events of shutdown or gas restrictions can be interpreted as force majeure or may be covered by the outage provisions of the downstream offtake agreements of SPPC, limiting any adverse effects of disruptions in the supply of natural gas to SPPC.

SMC Global Power also believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of the Company and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price.

Reliance on Independent Power Producers for the operation and maintenance of the IPPA Power Plants

Power generation involves the use of highly complex machinery and processes and the success of SMC Global Power depends on the effective maintenance of equipment for its power generation assets. IPPs associated with the respective IPPA Power Plants are responsible for the operation and maintenance of their respective IPPA Power Plants.

Although the energy conversion agreements ("**ECAs**") with the IPPs or power purchase agreements ("**PPAs"**) with NPC in respect of the IPPA Power Plants contain bonus and penalty provisions, these do not eliminate the risk of failure on the part of the IPPs to satisfactorily perform their respective operations and maintenance obligations. Any failure on the part of such IPPs to properly operate and/or adequately maintain their respective power plants could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

In addition, if SMC Global Power, through its subsidiaries, fails to generate or deliver electricity beyond contractually agreed periods due to the failure of the IPPs to operate and maintain the power facilities, the counterparties of SMC Global Power in its power supply contracts ("**PSCs**") and RSCs may have a right to terminate those contracts for outages beyond applicable outage allowances in the PSCs, and replacement contracts may not be entered into on comparable terms or at all. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

SMC Global Power leverages on the strengths and track record of its world-class IPP partners in operating its existing power portfolio by monitoring their adherence to the minimum operating protocols specified in the IPPA and ECAs in line with international best practices.

Market limitations under the Electric Power Industry Reform Act ("EPIRA")

As of June 30, 2017, the Group has a 20% market share of the Luzon Grid, a 5% market share of the Mindanao Grid and a 15% market share of the National Grid in terms of installed capacity based on industry data from the ERC. The EPIRA limits the market share of a participant to 30% per grid and 25% of the National Grid by installed capacity. SMC Global Power may not receive permission to increase its capacity and market share if this would result in exceeding the permitted capacity or market share prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business prospects of SMC Global Power.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power plants to coincide with the growth of the Philippine power industry. Pursuant to the EPIRA limits provided under ERC Resolution No. 05 series of 2017, SMC Global Power may still expand by as much as 2,104 MW nationwide, but limited to the following capacities per grid: 1,458 MW in Luzon, 923 MW in Visayas and 756 MW in Mindanao as of June 30, 2017. At the current levels, SMC Global Power is within the market share cap even with the addition of its greenfield power plants under construction today.

Development of greenfield power projects

The development of greenfield power projects involves substantial risks that could give rise to delays, cost overruns, unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of SMC Global Power.

The Company has strong credit-line to avail external financing and sufficient internally generated funds to finance its projects. Also, the Company has entered into offtake agreements with various distribution utilities and industrial users that has substantially contracted the projects' commercial capacity.

The Company has contracted world-class and industry-leading EPC contractor to construct its projects. Under the EPC contracts, the Company will be indemnified in the event of delay and/or default of the EPC contractor. To ensure timely delivery and performance, the EPC contracts provide for a schedule of payments of the contract price based on agreed milestones. SMC Global Power checks on the accomplishments of the EPC contractor prior to the release of the corresponding payment per milestone.

Adverse effect of WESM price fluctuations

From the time the WESM for Luzon began operating in June 2006, market prices for electric power have fluctuated substantially. Unlike many other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Long-term and short-term power prices may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

- increases and decreases in generation capacity in the markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation power plants, expansion of existing power plants or additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;
- electric supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and, if warranted under applicable circumstances, adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and environmental regulations and legislation.

These factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

On March 3, 2014, the ERC issued an order (the "**ERC Order**") declaring the prices in the WESM for the November and December 2013 billing months, as null and void, and ordered the Philippine Electricity Market Corporation ("**PEMC**"), the operator of the WESM, to calculate and issue adjustment bills using recalculated prices.

SMEC, SPPC, and SPDC filed a request with the ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI filed with the Court of Appeals a Petition for Review of these orders.

The Court of Appeals, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC and SPI, declaring the ERC Order null and void and set aside the

Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 in ERC Case No. 2014-021 MC and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to ₱2.625 billion, plus interest.

The strategy of the Company is to source majority of its revenues from bilateral offtake agreements. This ensures cash flows while minimizing the exposure of the Company to any unfavorable fluctuations in WESM prices. Revenue from bilateral contracts with offtakers contributed 89%, 92% and 95% of total revenue for the years ended December 31, 2014, 2015 and 2016, respectively, and 95% of the total revenue for six months ended June 30, 2016 and 2017.

Non-renewal of or non-compliance with offtake agreements

SMC Global Power, through its subsidiaries, has offtake agreements with various distribution utilities, electric cooperatives and large industrial and commercial users. Some offtake agreements will expire before the termination of the applicable IPPA Agreement, although they may be renewed by mutual agreement of the parties. The IPPA Agreements provide that the amounts of payment obligations of SMC Global Power will increase over time. While SMC Global Power intends to renew the offtake agreements upon expiration to provide stable and predictable revenue streams to meet its obligations under the IPPA Agreements, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power.

The Company manages a large, reliable and diverse portfolio of power plants that allows it to supply at competitive rates and terms. Considering the increasing electricity requirements of the country underpinned by a strong GDP and population growth rate, the Company believes that its offtake agreements will be renewed or will be able to expand its customer base. Further, the Company has an experienced sales and marketing team that actively markets to its existing and to new financially capable prospective customers. In addition, the Company maintains good working relationships with its offtakers and has cultivated a long history of reliability and good customer service.

Standard terms of the power supply agreements ("**PSAs**") require offtakers to post a security deposit equivalent to 100% of estimated monthly power bill, which will cover the customer's liability in the event of non-compliance with payment.

Operating capacities of its power portfolio.

The administration of the output of the power generation plants involves significant risks, including:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;

- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;

- pollution or environmental contamination affecting the operation of power generation assets;

- planned and unplanned power outages due to maintenance, expansion and refurbishment;

- inability to obtain or the cancellation of required regulatory, permits and approvals;

- opposition from local communities and special interest groups; and

- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage and plant destruction.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate sales derived by SMC Global Power from its power generation assets. While the IPPA Agreements of the Company provide certain reliefs in the event the IPPA Power Plants cannot produce or dispatch electricity, if any of the power generation assets of the Company is unable to generate or deliver electricity to customers for an extended period of time which may be due to the aforementioned risks, its customers may be exempt from making certain payments so long as any such events continue. In addition, if the subsidiaries of SMC Global Power fails to generate or deliver electricity beyond the contractually agreed outage periods, its counterparts in its PSCs may have a right to terminate those contracts, and replacement contracts may not have been entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

SMC Global Power leverages on the strengths and track record of its partners in operating its existing power portfolio by monitoring their adherence to the minimum operating protocols specified in their respective IPPA Agreements or operations and maintenance agreements in line with international best practices.

Insurance coverage for generation plants.

The IPPs of the IPPA Power Plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance coverage. The IPPA of these IPPA Power Plants, namely SMEC, SPDC and SPPC, however, are not beneficiaries of any of these insurance policies. These IPPA have no business interruption insurance coverage and are therefore uninsured for liabilities or any direct or indirect costs and losses which may be incurred, as a result of any business interruption that their respective IPPA Power Plant may experience. SMC Global Power believes that there is no business interruption insurance available for the IPPA business model under which its IPPA- subsidiaries are currently operating. Accordingly, any uninsured liabilities or direct or indirect losses, including any third-party claims that result from an interruption to the business of these IPPAs could have a material adverse effect on its financial condition and results of operations.

For the greenfield power plants of SMC Global Power, SCPC and SMCPC have already secured the necessary insurances for its respective power plants to cover for physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. However, for loss of opportunity cost or marginalized income, SCPC and SMCPC are still in the process of securing business interruption insurance to cover debt servicing cost and fixed operating cost. This however does not cover any decline in production or adverse publicity that SCPC or SMCPC may suffer as well as any significant resource that SCPC or SMCPC may invest to address such losses.

Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have a material adverse effect on its businesses, financial condition and results of operations.

While the Company has not experienced any major downturn in the operations of the IPPA Power Plants brought about by unexpected losses caused by natural disasters or other events that could affect its facilities, the Company believes that it can withstand such events with its business strategies in place. SMC Global Power also has a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. For further discussion on the business strategy of the Company, please refer to page 54.

No direct contractual and operational relationship.

SMC Global Power is dependent on the IPPA Power Plants to generate power, and for the IPPs to comply with their contractual obligations to NPC under their IPP Agreements. SMC Global Power does not have a direct contractual relationship with the IPPs and cannot directly enforce the IPP Agreements against the IPPs. Failure by an IPP to comply with its obligations under its IPP Agreement may significantly reduce or eliminate power generation volumes or increase costs, thereby decreasing or eliminating revenues that the IPPA subsidiaries of SMC Global Power can derive from selling the power generated by the IPPA Power Plants. Any claims for damages for breach, or other entitlement, benefit or relief under the IPPA Agreement arising from the breach, by the IPP, of its IPP Agreement obligations must be claimed by SMC Global Power against PSALM through specified claim mechanisms. The IPPA Agreements do not permit set-off of claims, and the IPPA subsidiaries of SMC Global Power are only entitled to payment of their claim after PSALM has received payment from the IPP of its corresponding claim. Accordingly, the IPPA subsidiaries of SMC Global Power bear the risks associated with the lack of direct recourse against the IPPs, delays in the enforcement of their claims and other risks related to pursuing claims or legal proceedings against a state-owned entity such as PSALM. Any of these factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Foreign exchange risk.

While most of the offtake agreements of the subsidiaries of SMC Global Power allow adjustments for foreign exchange rate fluctuations, SMC Global Power remains subject to foreign exchange risk. A substantial amount of consolidated revenue from sales of power by SMC Global Power is denominated in Pesos, while a portion of its expenses and obligations are denominated in US dollars. The scheduled payment obligations to PSALM pursuant to the IPPA Agreements of the Company with PSALM are denominated in both US dollars and Pesos. The proportion of US dollars to Pesos payable under the IPPA Agreements is approximately 50% at the exchange rates prevailing as of the dates of the respective IPPA Agreements. The relevant subsidiaries of SMC Global Power also purchase coal as fuel for the Sual Power Plant and its greenfield power plants using US dollars. In addition, a significant portion of the capital expenditures required for its greenfield power plants are denominated in US dollars.

In May 2014 and August 2015, SMC Global Power issued undated subordinated capital securities amounting to US$600 million which are considered as part of equity.

A depreciation of the Peso, particularly with respect to the US dollar, increases the Peso equivalent value of the foreign currency-denominated costs and obligations of the Group. This could adversely affect the results of operations of the Group and its ability to service its foreign currency-denominated liabilities.

There can be no assurance that the Peso will not depreciate significantly against the US dollar or other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Philippine economy or the financial condition of SMC Global Power.

SMC Global Power actively evaluates combination of natural hedges such as holding US dollar-denominated assets and liabilities, foreign exchange adjustments in the pricing for certain offtake contracts, and derivative instruments to manage its exchange rate risk exposure. The Company also considers redenomination of US dollar-denominated obligations to Philippine Peso to minimize exposure to foreign exchange fluctuations.

Variations in hydrological conditions and irrigation requirements.

The hydro-electric generation is dependent on the amount and location of rainfall and river flows, which vary widely from quarter to quarter and from year to year. NPC owns and operates the dam and the dam-related facilities of the San Roque Power Plant and has obtained a water permit allowing it to use the water flow from the Agno River to generate power from the San Roque Power Plant with an allowable volume dictated by downstream irrigation requirements set by the National Irrigation Administration ("**NIA**").

The facilities of AHEPP are located within the Angat Watershed Reservation, which is managed by and is under the jurisdiction of NPC. NPC issued a water permit dated November 28, 1979 by then National Water Resources Council pursuant to which NPC has authority to extract water from the Angat River for power generation purposes. In a resolution dated April 4, 2016, National Water Resources Board ("**NWRB**"**)** granted KWPP Holdings Corporation's petition for the transfer of the said water permit to itself and authorized its lease to AHC. The water discharged by the AHEPP is used for the following purposes: (i) the water outflow of the three Auxiliary Units of 6 MW capacity each (each an "**Auxiliary Unit**" or collectively, "**Auxiliary Units**") flows to the Ipo Dam and is conveyed by Metropolitan Waterworks and Sewerage System ("**MWSS**") to Metro Manila for domestic use; and (ii) the water outflow of the four Main Units of 50 MW capacity each (each a "**Main Unit**" or collectively, "**Main Units**") flows to the Bustos Dam and is conveyed by NIA to the province of Bulacan for irrigation purposes.

The levels of hydro-electric production can therefore vary from period to period depending on the water levels in the reservoir and downstream irrigation and water supply requirements. In years of less favorable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoir has low water levels, which reduce the amount of power that the San Roque Power Plant and the AHEPP are able to generate. This could reduce the revenues from the sale of power from the San Roque Power Plant and the AHEPP, which could have a material adverse effect on SMC Global Power's business, financial condition and results of operations. Conversely, if too much rainfall occurs at any one time, such as during a typhoon, water may flow too quickly and at volumes in excess of the water intake capacity of the San Roque Power Plant and AHEPP, which may cause release of water using the spillway.

The Company, through its subsidiaries, actively manages the water supply of the hydro power plants to optimize generation while ensuring that the irrigation supply requirements are met in coordination with the relevant government agencies.

Challenges in successfully implementing its growth strategy.

Implementing the growth strategy of SMC Global Power involves: (i) substantial investments in new power generation facilities; (ii) acquisitions of existing power generation capacity; and (iii) entering into alliances with strategic partners. The success in implementing the strategy of the Company will depend on, among other things, its ability to identify and assess investment and acquisition opportunities as well as potential partners, its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of power; its ability to manage construction of planned greenfield power plants within technical, cost and timing specifications; and its ability to control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy (including overall growth and income levels) and the overall levels of business activity in the Philippines.

SMC Global Power is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected.

The growth strategy of SMC Global Power will also place significant demands on its management, financial and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. Any inability to meet these challenges could disrupt the business of SMC Global Power, reduce its profitability and adversely affect its results of operations and financial condition.

The Company: (i) maintains a highly experienced management team composed of experts with extensive knowledge of the Philippine power industry; (ii) has in place a system of financial prudence and corporate governance; and (iii) strengthens the competencies of its employees specifically those in the succession pipeline of key personnel, provides training to prepare employees to take on higher responsibilities, and pursues strategic hiring for identified critical positions.

The Company undertakes prudent review and due diligence, and evaluates the viability of any acquisition or investment. In addition, the Company is guided by metrics when assessing possible investments, which include, but are not limited to, financial returns and possible synergies, with an overall objective of maximizing returns.

Availability of financing.

SMC Global Power expects to fund its expansion and growth plans through a combination of internally generated funds and external financing. The continued access to debt and equity financing of the Company is subject to factors, many of which are outside of the control of SMC Global Power: political instability, economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing, decrease the price of its securities, or restrict the ability of SMC Global Power to obtain debt or equity financing. In addition, recent disruptions in global capital and credit markets may continue indefinitely or intensify. Other factors affecting the ability of SMC Global Power to borrow include (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers, (ii) compliance by the Company with existing debt covenants, which include leverage ratio covenants, and (iii) the ability of SMC Global Power to service new debt. The inability of SMC Global Power to obtain financing from banks and other financial institutions or from capital markets would adversely affect its ability to execute its expansion and growth strategies and have a material adverse effect on the business, financial condition, and results of operations of SMC Global Power.

The Company employs a system of financial prudence and good corporate governance to manage the risks relating to debt and equity financing. The Company can also rely on its strengths to navigate and have continual access to financing. For further discussions on these strengths, please refer to Strengths of SMC Global Power on page 51.

Significant finance lease obligations.

The IPPA subsidiaries of SMC Global Power has significant finance lease obligations.

Each of the IPPA Agreements requires the IPPA subsidiaries of SMC Global Power to make monthly payments consisting of two separate components: a “fixed” payment, the amount of which in any given month is specified by the IPPA Agreement itself, and a variable payment, the amount of which in any given month depends on the amount of power delivered by the IPPA Power Plant, subject to certain adjustments. Through the IPPA Agreements, the IPPA subsidiaries of SMC Global Power has acquired substantially all of the risks (except for the operations and maintenance) and rewards incidental to ownership of the IPP Power Plants, therefore the IPPA subsidiaries of SMC Global Power accounts for the IPPA Agreements as finance leases.

Accordingly, upon entry into each IPPA Agreement, the IPPA subsidiaries of SMC Global Power recognized the related power plant as an asset in its balance sheet under "property, plant and equipment" based on the present value of the fixed monthly payments due to PSALM under the IPPA Agreement and recognized a corresponding liability in its balance sheet under "Finance lease liabilities."

Each of the fixed monthly payments made by SMC Global Power, through its IPPA subsidiaries, under an IPPA Agreement is apportioned between finance cost and reduction of (or, in certain cases, addition to) the finance lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance costs are shown in the consolidated income statements of SMC Global Power as "finance cost" and recognized as part of "Other income (charges)" while the reduction of the finance lease liability (or addition to finance lease liability as applicable) is recorded directly in the consolidated balance sheet of SMC Global Power. Each of the variable payments made by the IPPA subsidiaries of SMC Global Power under an IPPA agreement is recorded in the consolidated income statement of SMC Global Power as "energy fees" that form one component of "cost of power sold."

The level of finance lease obligations of the IPPA subsidiaries of SMC Global Power could:

- require SMC Global Power, through its IPPA subsidiaries, to dedicate a substantial portion of its cash flow from operations to debt and other payment obligations, thereby decreasing the availability of its cash flow for business operations, including expansion and acquisitions;

- increase the vulnerability of the IPPA subsidiaries of SMC Global Power to general adverse economic and industry conditions; and

- prevent the IPPA subsidiaries of SMC Global Power from accessing credit or equity markets to satisfy its repayment obligations as they become due on favorable terms, or at all.

Majority of the capacity of the IPPA Power Plants is contracted with Meralco, which ensures cash flows to pay for its finance lease liabilities under the IPPAs. Meralco contracts will expire in 2019 with option to renew until the end of the IPPA Agreement. Considering the increasing electricity requirements of the country underpinned by a strong GDP and population growth rate, the Company believes that its offtake agreements will be renewed. The renewal of these PSCs will ensure cash flows and allow the Company to meet the obligations under its finance lease liability. In addition, the Company maintains good working relationships with its offtakers and has cultivated a long history of reliability and dependability. Finally, the Company has an experienced sales and marketing team that actively markets to its existing customers and to other financially capable prospective customers.

Dependence on the existence of transmission infrastructure.

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas Grid without any back-up and the lack of any interconnectivity between the Visayas-Mindanao Grid.

If these transmission constraints continue, the ability of SMC Global Power to supply electricity from the IPPA Power Plants of its subsidiaries and its planned and contemplated greenfield power projects, as well as the ability of SMC Global Power to increase its geographical reach, will be adversely affected. This could have a material adverse effect on the business and revenue growth of the Company from power sales.

The Company and its subsidiaries are in constant consultation and communication with National Grid Corporation of the Philippines ("**NGCP**") and other relevant government institutions to address the transmission infrastructure requirements of the Company and its subsidiaries. The Department of Energy of the Philippines ("**DOE**") is mandated by law to prepare a Transmission Development Plan to be implemented by NGCP which aims to address projected infrastructure limitations and interconnectivity of sub-grids.

Certain tax exemptions and tax incentives.

As of date of this Prospectus, certain subsidiaries of SMC Global Power that were registered with the Board of Investments ("**BOI**") as new operators with pioneer status and non-pioneer status for its greenfield projects, namely, SCPC for the Limay Greenfield Power Plant and SMCPC for the Davao Greenfield Power Plant, benefit from certain tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts and accessories.

In the event of expiration, revocation or repeal of these tax exemptions or tax incentives, the income from these sources will be subject to the corporate income tax rate, which is 30.0% of net taxable income as of the date of this Prospectus. As a result, the consolidated tax expense of SMC Global Power would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Government Regulation.

The business of SMC Global Power is subject to extensive government regulation, particularly for its greenfield power plants. To conduct its business, SMC Global Power and its subsidiaries must obtain various licenses, permits and approvals. Even when SMC Global Power and its subsidiaries obtain the required licenses, permits and approvals, their operations are subject to continued review under the applicable regulations, and the interpretation or implementation of such regulations is subject to change.

For example, the operations of its greenfield power plants are subject to a number of national and local laws and regulations, including safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of facilities, employee exposure to hazardous substances, site clean-up, groundwater quality and availability, plant and wildlife protection, and other aspects of the operations of the business of SMC Global Power and its subsidiaries. Failure to comply with relevant laws and regulations may result in monetary penalties or administrative or legal proceedings against SMC Global Power or its subsidiaries, which may cause or result in the termination or suspension of its licenses or the operation of its facilities.

In addition, SMC Global Power implements, through SMEC, its plans to develop its coal mining assets and it will be subject to national and local laws and regulations affecting coal mining.

SMC Global Power and its subsidiaries have incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. In addition, SMC Global Power and its subsidiaries have made, and expect to continue to make, capital expenditures on an ongoing basis to comply with safety, health, mining and environmental laws and regulations.

While the Company believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there can be no assurance that SMC Global Power and its subsidiaries will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held liable in any future litigation or proceedings relating to safety, health, mining and environmental matters, the costs of which could be material. In addition, safety, health, mining and environmental laws and regulations in the Philippines have become increasingly stringent. There can be no assurance that the adoption of new safety, health, mining and environmental laws and regulations, new interpretations of existing laws, increased governmental scrutiny of safety, health, mining and environmental laws or other developments in the future will not result in SMC Global Power and its subsidiaries from being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade, supplement or relocate their facilities.

If SMC Global Power or its subsidiaries fails to comply with all applicable regulations or if the regulations governing its business or their implementation change, SMC Global Power or its subsidiaries may incur increased costs or be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations.

The Company has been compliant with and continues to perform its obligations under applicable laws and regulations relevant to its businesses.

SMC Global Power and its subsidiaries are in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. Further, the Company and its subsidiaries maintain a strong compliance culture and have processes in place in order to manage adherence to laws and regulations.

ERC Regulation of electricity rates of distribution utilities.

The imposition of more stringent regulations and similar measures by the ERC could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Sales to distribution utilities accounts for majority of the consolidated sales volume of SMC Global Power for the six months ended June 30, 2017. While rates charged by SMC Global Power through its subsidiaries under their offtake agreements, including those with distribution utilities, are not regulated by the ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC. Accordingly, the ability of distribution utility customers to pay the subsidiaries of SMC Global Power largely depends on their ability to pass on their power costs to their customers. There is also no assurance that the current laws, regulations, and issuances affecting the industry, particularly the EPIRA and the issuances of the ERC, will not change or be amended in the future.

There is no assurance that the ERC will permit the distribution utility customers of the subsidiaries of SMC Global Power to pass on or increase their rates or that subsequent reviews by the ERC will not result in the cancellation of any such increases or require such customers to refund payments previously received from their customers. There is also no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. The case is pending resolution by the Supreme Court. The ERC also issued an order dated March 3, 2014 which voided the WESM prices for the November and December 2013 billing months and imposed prices to be recalculated by PEMC. The Court of Appeals in its Decision dated November 7, 2017 declared the ERC Order dated March 3, 2014 null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013. Upon finality, a claim for refund may be made with PEMC.

The ERC in the exercise of its regulatory powers may also impose fines, penalties, or sanctions to SMC Global Power in appropriate cases. Any restriction on the ability of distribution utilities to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

The Company continues to engage in comprehensive discussions and maintains good working relationship with the ERC to obtain proper resolution of its pending applications for tariff approval.

Trading on the WESM.

While the subsidiaries of SMC Global Power only sell a small amount of power through the WESM, volatile market conditions on the WESM may nevertheless pose risks to SMC Global Power regardless of whether there is a shortage or a surplus of energy available. When the WESM experiences a shortage, there is little risk to suppliers in terms of their value-position being destroyed. However, such a suppliers' market exposes these suppliers to the risk that regulatory agencies may intervene (directly or indirectly) to dictate prices and dispatch of power plants. Consumer outrage, triggered by high prices, could precipitate attempts to suspend the WESM and return to subsidized rates regimes. Regardless of whether such a suspension ultimately comes to pass, market anticipation of such an occurrence could lead to value-destructive market distortions. On the other hand, a surplus market tends to cause spot market prices to reflect the marginal cost of producing power. One of the main features of the WESM is a merit-order dispatch scheme wherein the cheapest sources of power, such as power produced from geothermal and hydroelectric energy, are dispatched first, before the more expensive power providers. While a supplier can mitigate its exposure to surplus risks by contracting the bulk of its capacity to offtakers to protect against low spot prices, as the subsidiaries of SMC Global Power have done, this also caps a supplier's ability to take advantage of price spikes caused by temporary market shortages.

Currently, the ERC has implemented a reduced primary bid cap of ₱32,000 per MWh. In addition, a permanent secondary price cap limits spot prices to ₱6,245 per MWh for as long as cumulative spot prices breach a certain threshold. Prices are automatically capped at ₱6,245 per MWh for hours where the average price for the last 120-hours exceeds ₱9,000 per MWh.

Occurrence of such events could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

Majority of the capacity of the subsidiaries of the Company is contracted through PSAs with various offtakers. In addition, the Company continues to engage in comprehensive discussions and maintains good working relationship with the PEMC to align its trading strategies with reasonable and acceptable standards and best practices. For further discussions, please refer to Business Strategies on page 54.

Possible conflicts of interest.

San Miguel Corporation is the sole shareholder of the Issuer, controls the board of directors of the Issuer and exerts significant influence over the policies, management and affairs of the Issuer. As a result, San Miguel Corporation is able to exercise significant control and influence over many corporate actions of the Issuer. The interests of San Miguel Corporation may differ from those of the Issuer which may adversely affect the interests of the Bondholders. There can be no assurance that conflicts of interest between the Issuer and San Miguel Corporation will be resolved in favor of the Bondholders.

The Issuer continues to have comprehensive discussions and strong harmonious relationship with its stakeholders working towards a common goal of expanding the business, increasing profitability, and maximizing shareholder value, guided by the manual of good corporate governance.

Dependence on the support of San Miguel Corporation.

SMC Global Power relies upon San Miguel Corporation for certain shared services such as, but not limited to, human resources, corporate affairs, legal, finance and treasury functions. There is no guarantee that San Miguel Corporation will continue to provide these services in the future. Should San Miguel Corporation cease to provide these services, SMC Global Power will have to obtain these services from elsewhere, most likely at a greater expense, which could have a negative impact on its business and results of operations.

While SMC Global Power relies on certain shared services from San Miguel Corporation, these are all done at arm's length transaction basis. The Company likewise strives to strengthen the competencies of its employees and pursues strategic hiring for identified critical positions to minimize its dependence of support from San Miguel Corporation on certain services.

Legal and other proceedings arising out of its operations.

The Company and its subsidiaries, from time to time, may be involved in disputes with various parties involved in the generation, supply and sale of electric power, including contractual disputes with subcontractors, suppliers and government agencies such as the legal matters discussed in Note 21 of the condensed consolidated interim financial statements of SMC Global Power as of June 30, 2017. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the operations of the SMC Global Power. The Company may also have disagreements with regulatory bodies in the ordinary course of its business, which may subject it to administrative proceedings and unfavorable decisions that will result in penalties and/or delay the development of its greenfield projects and its current operations. In such cases, the business, financial condition, results of operations and cash flows of the SMC Global Power could be materially and adversely affected.

SMC Global Power is in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits and approvals are anticipated and obtained in a timely manner. The Company also continues to engage in comprehensive discussions and maintains good working relationship with its employees and other contractual counterparties. Further, the Company maintains a strong compliance culture and has processes in place in order to manage adherence to laws, regulations and contractual commitments.

RISKS RELATING TO THE PHILIPPINES

Political instability.

The Philippines has, from time to time, experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two (2) former presidents, the Chief Justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by current and previous administrations. In addition, a number of officials of the Philippine government are currently under investigation on corruption charges stemming from allegations of misuse of public funds. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of SMC Global Power.

Most recently, the House of Representatives has conducted hearings on the impeachment complaints against Chief Justice Maria Lourdes Sereno who has been accused of culpable violation of the Constitution, corruption, other high crimes and betrayal of public trust.
No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Company.

Acts of terrorism, clashes with separatist groups and violent crimes.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of the Moro National Liberation Front allegedly led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the Moro National Liberation Front in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two (2) Muslim rebel groups: Moro Islamic Liberation Front and Bangsamoro Islamic Freedom Fighters in the Southern Philippines. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

On May 23, 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. President Duterte has asked for the extension as the rebellion could not be completely quashed over the initial 60-day period of Martial Law. Some sectors however are wary of the prolonged extension of Martial Law, citing its negative impact on business, tourism, the country's image (as this relates to the current administration's ability to quickly restore peace and order in Marawi), and investor confidence. The ongoing clashes have resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents.

Territorial and other disputes with neighboring states.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused one another of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal during the late spring and summer of 2012. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under the United Nations Convention on the Law of the Sea. China has rejected and returned the notice sent by the Philippines requesting arbitral proceedings. Chinese vessels have also recently confronted Philippine vessels in the area, and the Chinese government has warned the Philippines against what it calls provocative actions. Recent talks between the Government and the United States of America about increased American military presence in the country, particularly through possible American forays into and use of Philippine military installations, may further increase tensions. In March 2014, the Philippines filed an arbitration case with the United Nations Permanent Court of Arbitration in connection with this dispute.

On June 20, 2015, the Government, through the Department of Foreign Affairs, issued a statement reiterating its serious concern that China's reclamation and construction activities in a disputed part of the West Philippine Sea grossly violate the 2002 Association of Southeast Asian Nations ("**ASEAN**")-China Declaration on the Conduct of Parties in the South China Sea ("**DOC**") and may serve to escalate the disputes and undermine efforts to promote peace, security, and stability. In the same statement, the Philippines called on China anew to heed calls from the region and the international community to exercise self-restraint in the conduct of activities pursuant to paragraph 5 of the DOC. In July 2015, the Philippines presented its case in front of the Arbitration Tribunal in The Hague. The case remains ongoing.

In early March 2013, several hundred armed Filipino-Muslim followers of Sultan Jamalul Kiram III, the self- proclaimed Sultan of Sulu from the south of the Philippines, illegally entered Lahad Datu, Malaysia in a bid to enforce the Sultan of Sulu's historical claim on the territory. As a result of the illegal entry, these followers engaged in a three-week standoff with the Malaysian armed forces, resulting in casualties on both sides. Clashes between the Malaysian authorities and followers of the Sultan of Sulu have killed at least 98 Filipino-Muslims and 10 Malaysian policemen army since March 1, 2013. In addition, about 4,000 Filipino-Muslims working in Sabah have reportedly returned to the southern Philippines.

On May 9, 2013, a Philippine Coast Guard ship opened fire on a Taiwanese fisherman's vessel in a disputed exclusive economic zone between Taiwan and the Philippines, killing a 65-year old Taiwanese fisherman. Although the Government maintained that the loss of life was unintended, Taiwan imposed economic sanctions on the Philippines in the aftermath of the incident. Taiwan eventually lifted the sanctions in August 2013 after a formal apology was issued by the Government. However, the incident has raised tensions between the two countries in recent months.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the operations of SMC Global Power could be adversely affected.

Natural catastrophes.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the business operations of the Company. In particular, damage caused by natural catastrophes could result disruptions with respect to the IPPA Power Plants of the Company and its greenfield power plants. There can be no assurance that SMC Global Power is fully capable to deal with such natural catastrophes and that the insurance coverage it currently maintains for its greenfield power plants will fully compensate it for all the damages and economic losses resulting from these catastrophes.

Management of risks related to the Philippines

The Company has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crisis, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

RISKS RELATING TO THE BONDS

Suitability of Investment.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

Liquidity.

The Company plans to list the Bonds in the PDEx to provide price transparency and liquidity to the Bondholders. As with other fixed income securities, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, the operations of the Company, the overall market for debt securities, political and economic developments in the Philippines and other regions, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

In addition, there can be no assurance that an active secondary market for the Bonds will develop or how the Bonds will perform. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities. There is no assurance that the Bonds may be disposed at prices, volumes or at times deemed appropriate by the Bondholders.

The Bonds entail credit risk from Issuer.

The ability of the Issuer to make scheduled principal or interest payment on the Bonds will depend on the Issuer's future performance and the Issuer's ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this "Risk Factors and Other Considerations" section, many of which are beyond the Issuer's control.

To mitigate this risk, the Issuer ensures it has a sufficient amount of cash to allow it to timely service the principal and interest payments of the Bonds. In addition, the Issuer together with its subsidiaries, associates and joint ventures is one of the largest power companies in the Philippines. The Issuer believes it will adequately meet its principal and interest payments under the Bonds due to its strong market position and stable and predictable operating cash flows, and high liquidity.

The Bondholder may face possible gain or loss if the Bonds are sold at the secondary market.

As with all fixed income securities, the Bonds' market values move (either up or down) depending on the change in interest rates. The Bonds when sold in the secondary market are worth more if interest rates decrease since the Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Bonds are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Bonds.

Reinvestment.

Prior to the relevant maturity dates of the Bonds, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant Optional Redemption Dates (see "Description of the Offer Bonds" in the relevant Offer Supplement). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

Pricing

The market value of the Bonds moves (either up or down) depending on the change in interest rates prevailing in the market. The Bonds when sold in the secondary market may be worth more if such interest rates decrease if the Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rates increase, the Bonds may be worth less when sold in the secondary market. Therefore, an investor may sustain losses if he decides to sell.

Retention of Ratings

There is no assurance that the rating of the bonds will be retained throughout the life of the bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

Bonds have no Preference under Article 2244(14) of the Civil Code

No other loan or other debt facility currently or to be entered into by the Issuer is notarized, such that no other loan or debt facility to which the Issuer is a party shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities have waived the right to the benefit of any such preference or priority. However, should any bank or Bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then at the option of the Issuer, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics in this Prospectus relating to the Philippines, the industries and markets in which the business of the Company operates, including statistics relating to market size and market share, are derived from various Government and private publications, including those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

USE OF PROCEEDS

The intended use of proceeds for each offer of Bonds being offered shall be set in the relevant Offer Supplement under “Use of Proceeds”.

DETERMINATION OF OFFER PRICE

The Bonds shall be issued at 100% of principal amount or face value.

PLAN OF DISTRIBUTION

The detailed plan of distribution and underwriting arrangement for each offer of Bonds shall be set out in the relevant Offer Supplement.

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DESCRIPTION OF THE BONDS

The detailed terms and conditions of each Offer shall be set out in the relevant Offer Supplement under "Description of the Offer Bonds". However, any such discussion under "Description of the Offer Bonds" does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors of the Company, the information contained in this Prospectus, the relevant Offer Supplement and other agreements relevant to each Offer and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in each Offer. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds being offered.

DESCRIPTION OF BUSINESS

COMPANY OVERVIEW

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, associates and joint ventures (collectively referred to as the "Group"), is one of the largest power companies in the Philippines, controlling 3,063 MW of combined capacity as of June 30, 2017 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities in ERC Resolution No. 05, Series of 2017, SMC Global Power, through its IPPA and IPP subsidiaries, had a 15% market share of the power supply of the National Grid, a 20% market share of the Luzon Grid and a 5% market share of the Mindanao Grid, in each case as of June 30, 2017.

San Miguel Corporation entered the power industry in 2009 following the acquisition of rights to administer the output produced by IPPs in privatization auctions conducted by the government through PSALM.

The IPPA under the IPPA Agreement has the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, it also has the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the WESM.

SMEC became the IPPA for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan in November 2009. On the other hand, SPDC became the IPPA for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010 while SPPC became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010. The Sual Power Plant, San Roque Power Plant and the Ilijan Power Plant are collectively referred to herein as the IPPA Power Plants.

In order to consolidate its power generation business, San Miguel Corporation eventually transferred its equity interest in SMEC, SPDC and SPPC to SMC Global Power. In September 2010, SMC Global Power became a wholly-owned subsidiary of San Miguel Corporation. Since then, SMC Global Power controls the 2,545 MW combined contracted capacity of the Sual Power Plant, San Roque Power Plant, and Ilijan Power Plant through the IPPA Agreements executed by SMEC, SPDC and SPPC, respectively.

In August 2011, as part of the reorganization of the power-related assets of San Miguel Corporation, SMC Global Power acquired from San Miguel Corporation a 100% equity interest in SMELC, which is a grantee of a RES license issued by the ERC.

In April 2013, SMC Global Power, through SPGC, acquired a 35% equity stake in OEDC. In October 2013, SMC Global Power entered into a 25-year concession agreement with ALECO, which became effective upon the confirmation of the NEA in November 2013. SMC Global Power organized and established a wholly-owned and controlled subsidiary, APEC, which assumed, as the concessionaire, all the rights and interests and performs the obligations of SMC Global Power under the concession agreement with ALECO.

SMC Global Power also initiated two greenfield power projects in 2013, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant and the 4 x 150 MW Limay Greenfield Power Plant. Ground breaking for the Davao Greenfield Power Plant took place in July 2013, while ground breaking for Limay Greenfield Power Plant was held in October 2013. Davao Greenfield Power Plant is owned by San Miguel Consolidated Power Corporation ("**SMCPC**"), while the Limay Greenfield Power Plant is owned by SCPC, both wholly-owned subsidiaries of SMC Global Power.

Both Units 1 of the Limay Greenfield Power Plant and Davao Greenfield Power Plant already attained commercial operations in May and July 2017, respectively. Both Units 2 of the Limay Greenfield Power Plant and the Davao Greenfield Power Plants are expected to commence commercial operations in the latter part of this year and next year, respectively.

In September 2013, SMC Global Power, through SPI, acquired 100% of the 140 MW Limay Cogeneration Plant located at the Petron Bataan Refinery, Barangay Alangan, Limay, Bataan from Petron Corporation. In November 2014, SMC Global Power, through its subsidiary PVEI, acquired a 60% stake in AHC, the owner and operator of the 218 MW AHEPP.

On June 16, 2016, Meralco Powergen Corporation ("**MGen**"), a subsidiary of Meralco, and Zygnet Prime Holdings, Inc. ("**Zygnet**") subscribed to 2,500 and 102 common shares of MPGC, then a wholly-owned subsidiary of SMC Global Power, respectively. As a result, SMC Global Power's ownership was reduced to 49% of the outstanding capital stock of MPGC while MGen and Zygnet each owns 49% and 2% equity interest in MPGC, respectively. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

In August 2016, SCPC obtained from the ERC its own RES License.

On December 23, 2016, the Limay Cogeneration Plant was sold back by SPI to Petron Corporation.

As of June 30, 2017, the total capacity of the Group is 3,063 MW.

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

During the years ended December 31, 2014, 2015 and 2016 and the six months ended June 30, 2016 and 2017, respectively, SMC Global Power, through its subsidiaries, sold 14,891 GWh, 14,714 GWh, 15,758 GWh, 8,502 GWh, and 7,648 GWh of power pursuant to offtake agreements and 2,110 GWh, 1,844 GWh, 1,588 GWh, 725 GWh, and 757 GWh of power through the WESM, respectively. During the years ended December 31, 2014, 2015 and 2016, and the six months ended June 30, 2016 and 2017, SMC Global Power, through its subsidiaries, purchased 477 GWh, 690 GWh, 760 GWh, 365 GWh, and 313 GWh of power from the WESM, respectively.

For the year ended December 31, 2016, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱77,972 million, ₱4,151 million and ₱10,475 million, respectively, for the six months ended June 30, 2017, the total consolidated revenue, net income, and EBITDA of SMC Global Power were ₱40,697 million, ₱2,655 million, and ₱6,991 million, respectively, while as of December 31, 2016, and June 30, 2017, SMC Global Power had total consolidated assets of ₱333,949 million and ₱360,632 million, respectively.

With the increased development of greenfield power plants from 2016 onwards, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and Company-operated power plants. In order to continue its strategic acquisitions of existing power generation capacity, SMC Global Power intends to participate in the bidding of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, and privately owned plants that fit the technical and commercial profile of its existing portfolio of power assets.

Furthermore, to the extent viable and allowed under prevailing industry regulations, SMC Global Power is open to opportunities for vertical integration of its power business by expanding into businesses along the power sector value chain that complement its current power generation operations. In particular, SMC Global Power intends to pursue downstream integration by capitalizing on changes in the Philippine regulatory structure which allow the expansion into the sale of power to a broader range of customers, including retail customers. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC and SCPC, to enter into RSCs with Contestable Customers.

SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao which, depending on prevailing global coal prices and the related logistical costs, may be tapped to eventually serve as a significant additional source of coal fuel for its planned and existing greenfield power plants.

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation and is the holding company for the power businesses of San Miguel Corporation. San Miguel Corporation is a diversified conglomerate founded in 1890 that is listed on the PSE and has interests in the food, beverage, packaging, fuel and oil, infrastructure, banking and property businesses. The relationship of SMC Global Power with San Miguel Corporation allows it to draw on the extensive business networks, local business knowledge, relationships and expertise of senior key executive officers of San Miguel Corporation.

STRENGTHS OF THE COMPANY

Leading power company in the Philippines with a strong growth platform. SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines based on its combined capacity of 3,063 MW as of June 30, 2017. The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC and SMCPC, the owners of the Limay and Davao Greenfield Power Plants, respectively. Based on the total installed capacity of the market, SMC Global Power, through its subsidiaries, on a contracted capacity basis for the Sual, San Roque and Ilijan Power Plants and with the full capacity of both Units 1 of the Limay and Davao Greenfield Power Plants and the AHEPP, has a 15% market share of the power supply of the National Grid of the Philippines, a 20% market share of the Luzon Grid and a 5% market share of the Mindanao Grid in each case as of June 30, 2017, based on ERC Resolution No. 05, Series of 2017.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for the power plant construction, or to bear any related development risk or ongoing maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell the power generated by the IPPs either pursuant to offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

The experience of SMC Global Power, through its subsidiaries, in acting as IPPA and its history of power plant ownership and operation, has enabled SMC Global Power to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework.

In addition, capitalizing on changes in the Philippine regulatory structure, SMC Global Power, through SMELC and SCPC, holds a RES license from the ERC allowing it to enter into offtake agreements with Contestable Customers. SMC Global Power, through SMEC and its subsidiaries, also maintains its coal concession assets which may serve as a back-up fuel source for its greenfield coal plants.

Stable and predictable cash flows underpinned by long-term offtake agreements. SMC Global Power, through its subsidiaries, sells power either through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. Revenue from bilateral contracts with offtakers contributed 89%, 92% and 95% of total revenue for the years ended December 31, 2014, 2015 and 2016, respectively, and 95% of the total revenue for the six months ended June 30, 2016 and 2017. The majority of the combined capacity of SMC Global Power, through its subsidiaries, has bilateral contracts that cover the term of the IPPA Agreements.

These offtake agreements provide SMC Global Power, through its subsidiaries, with stable and predictable cash flow, by enabling it to manage both market and price risks. Despite the general volatility in market prices for electric power due to supply and demand imbalances, SMC Global Power has been able to manage such risks through the contracted sale prices with offtakers which also provide a long-term stable source of demand. The tariffs under these agreements take into account adjustments for fuel, foreign exchange, and inflation, thereby allowing SMC Global Power to pass through these costs to its offtakers. In addition, SMC Global Power's diversified portfolio of baseload and peaking power plants helps mitigate market risks through long-term, inter-company, replacement power contracts.

Flexible and diversified power portfolio. SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA Power Plants have an average age of 15 years. In terms of installed capacity in the Philippines, the Sual Power Plant is the largest coal-fired power plant, the San Roque Power Plant is one of the largest and newest hydroelectric power plants, and the Ilijan Power Plant is the largest natural gas-fired power plant.

The existing power portfolio of SMC Global Power consists of (i) IPPAs, covering coal-fired (Sual Power Plant through SMEC), which represents 33% of the capacity of SMC Global Power, hydro-powered (San Roque Power Plant through SPDC), which represents 11% of the capacity of SMC Global Power, and natural gas-fired (Ilijan Power Plant through SPPC), which represents 39% of the capacity of SMC Global Power, (ii) the AHEPP, through AHC, which represents 7% of the capacity of SMC Global Power, and (iii) Company-owned power plants, particularly the Limay Greenfield Power Plant of SCPC, which represents 5% of the capacity of SMC Global Power, and Davao Greenfield Power Plant, which represents another 5% of the capacity of SMC Global Power as of June 30, 2017. Power generated by the Sual and Ilijan Power Plants is primarily used as baseload supply, and sold to customers pursuant to offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of the Company and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power and its subsidiaries can enter into bilateral contracts and trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA Power Plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners. The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation ("**KEPCO**") and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

Strong parent company support. The principal shareholder of SMC Global Power, San Miguel Corporation, is a highly diversified conglomerate with over 125 years of operations in the Philippines. San Miguel Corporation today has become one of the largest companies listed on the PSE in terms of revenues and assets. In addition to its power business, San Miguel Corporation has investments in vital industries that support the economic development of the country, including the food and beverage, packaging, fuel and oil, infrastructure, banking and property businesses.

Under the stewardship of San Miguel Corporation, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period of time. San Miguel Corporation provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance, and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of San Miguel Corporation, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of San Miguel Corporation, SMC Global Power believes that it can benefit from potential revenue and operational synergies with the San Miguel Corporation group of companies, and that the San Miguel Corporation group potentially provides a large captive energy demand base for SMC Global Power.

Experienced management, operating, trading and marketing teams. The senior management of SMC Global Power has extensive experience in the Philippine power industry, and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, National Transmission Corporation ("**TransCo**"), NGCP, PEMC and ERC, as well as people from other Government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have on average more than 25 years of experience in executive management and related Government experience in the power industry, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

Well-positioned to capitalize on the anticipated growth of the Philippine electricity market. Over the period from 2015 to 2020, growth in demand for electricity in the Philippines is expected to exceed the growth rate of the Philippines' gross domestic product ("**GDP**"), according to the DOE. Construction of new power plants on average takes a minimum of three years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the existing power supply shortage. The latter is exacerbated by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and bidding for selected NPC-owned power generation plants that are scheduled for privatization.

SMC Global Power through its subsidiaries, SMCPC and SCPC is in the process of completing the construction of two greenfield power plants, the Limay and Davao Greenfield Power Plants, with 750 MW of plants' combined generation capacity commissioned in 2016 and 2017 and the last 150 MW is expected to be commissioned in 2018. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demand.

BUSINESS STRATEGIES OF THE COMPANY

Optimize the generation capacity of its power portfolio. SMC Global Power and its subsidiaries intends to actively manage its sales and optimize the operations of its power plant portfolio in order to achieve a balanced mix of power sales through (1) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (2) sales through the WESM. This approach provides SMC Global Power with the certainty and predictability of sales from contracted sales while being able to capture sales upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA Agreements, and to sell available excess energy of the IPPA Power Plants through the WESM at favorable prices. For the year ended December 31, 2016 and the six months ended June 30, 2017, sales volumes through bilateral arrangements compared to sales through the WESM for the Sual, San Roque, and Ilijan Power Plants were 93% to 7% and 91% to 9%, 68% to 32% and 85% to 15%, and 93% to 7% and 93% to 7%, respectively.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of the IPPA Power Plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque Power Plant or with energy purchased from the WESM. In the event of tripping or shutdown of either the Sual or Ilijan Power Plant, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload, mid-merit, and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

Grow its power portfolio through the development and acquisition of power generation capacity. SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework. SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon and Visayas Grids, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power plans to use clean coal technology for its planned and existing greenfield power plants.

Integrate complementary businesses. SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained a RES license, through SMELC and SCPC, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES license allows SMC Global Power through SMELC and SCPC, to enter into retail electricity supply agreements with Contestable Customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations.

On the other hand, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. Depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could develop these assets which could potentially provide a significant additional source of coal fuel for its planned and existing greenfield power plants. SMC Global Power believes that a successful integration of viable coal mining operations into its power generation business could provide it with an additional competitive advantage over its competitors in the local power industry.

Leverage operational synergies. SMC Global Power intends to establish a track record of reliability by partnering with world-class IPP partners. SMC Global Power believes that the high caliber of these IPP partners enhances the likelihood that the IPPA Power Plants are in good working condition if SMEC, SPDC and SPPC exercise their respective options to purchase them upon the expiration of their IPPA Agreements. SMC Global Power, through PVEI, also gains knowledge and expertise with its joint venture partnership with Korea Water Resources Corporation ("**K-Water**") in AHEPP. SMC Global Power believes that this approach complements its strategic development of greenfield power projects. Further, SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with other subsidiaries and affiliates of San Miguel Corporation for the sale and supply of power.

IPPA FRAMEWORK

PSALM, together with NPC, has ECAs or other PPAs in place with various IPPs in the Philippines. Under the EPIRA, PSALM is required to achieve, through open and competitive bidding, the transfer of the management and control of at least 70% of the total energy output of the IPP plants under contract with NPC to IPPAs pursuant to IPPA Agreements, such as those held by SMC Global Power, through SMEC, SPDC and SPPC.

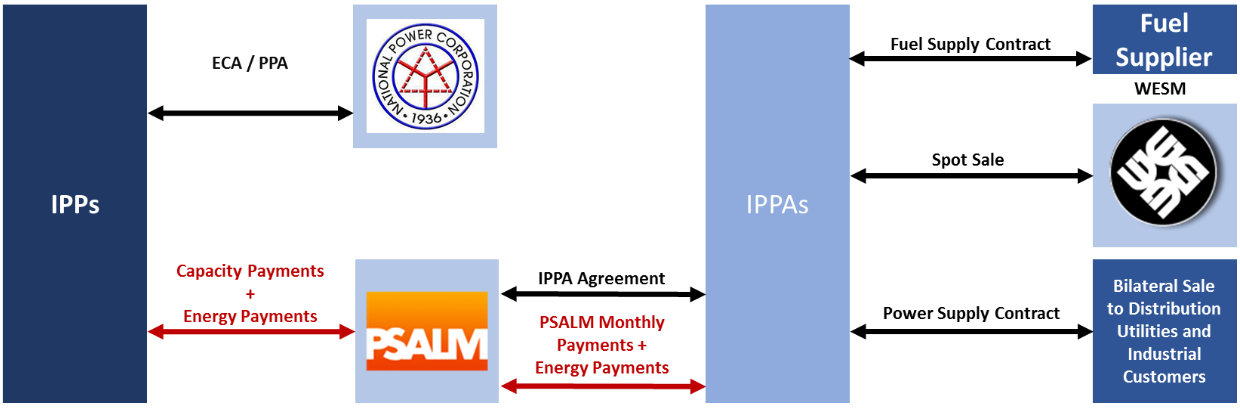
Under IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers and will, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to pay PSALM a fixed monthly payment and a variable energy or generation fee the amount of which depends on the dispatch and performance of the IPP. IPPA Agreements provide relief for IPPAs such as SMC Global Power, through SMEC, SPDC and SPPC, in the event the associated IPPs are unable to dispatch for a certain period of time not due to the fault of the IPPA.

PSALM/NPC in turn, pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities at the end of the terms of the ECAs or PPAs. Under the IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028 or at an earlier date due to certain events such as changes in applicable law or non-performance by the IPP.

The IPPA framework is intended to provide successful bidders a way to enter and trade in the WESM for a minimal capital outlay without the expense of building a new power plant and for IPPAs to enjoy the benefits normally attributed to owners of power generation plants, including controlling the fuel and its dispatch, trading, and contracting of the power plant, without maintenance costs or capital upgrades, which remain with the IPPs. Also, many of the risks of owning a power plant are explicitly managed through the contract. If there is an extended outage at the power generation plants, for example, there is up to a 50% discount on the monthly fees, and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

IPPAs are permitted to trade in the WESM, and are also free to enter into bilateral contracts and seek other markets for the balance of their contracted capacities and energy, as well as enter into other forms of financial hedging instruments if desired to manage their position in and exposure to the market.

Set forth below is a general illustration of the IPPA framework.



IPPs	NPC	PSALM	IPPAs
• Construct, operate and maintain plants • Deliver electricity according to the PPA / ECA and dispatch instructions from the IPPA	• IPP Counterparty • Become owner and operator of plants if IPP defaults • Plant ownership will be transferred at expiration of ECA	• IPPA counterparty • Extends equivalent relief to IPPA if IPP defaults	• Hold rights to sell electricity generated by IPPs • Procure fuel required by IPPs to generate power (only applicable to Sual power plant) • IPPA has the option to acquire the power plant at the end of the IPPA

IPPA Asset Transfer Process

Under the IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and through PSCs with specific customers, and, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to pay the PSALM a fixed monthly payment and a variable energy or generation fee (collectively, the “IPPA Fees”), the amount of which depends on the dispatch and performance of the IPP.

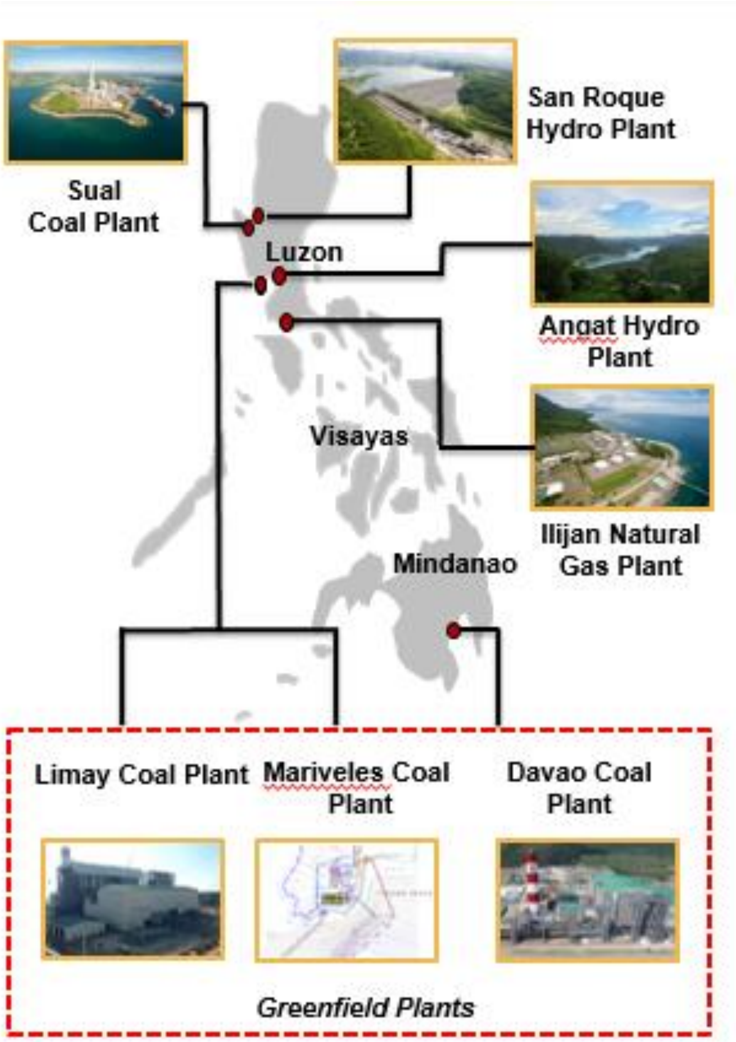
The IPPA framework effectively permits an IPPA to assume the role of the NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

At the end of the terms of the IPPA Agreements, which normally coincide with the terms of the Energy Conversion Agreements (“ECAs”) or Power Purchase Agreements (“PPAs”) between NPC and the IPPs, the IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities without additional consideration aside from the IPPA Fees paid throughout the term of the IPPA Agreement. Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028.

The IPPA may exercise the option to acquire the power plants prior to the end of the IPPA Agreement under certain circumstances, such as changes in law or non-performance by the IPP of its obligations under the ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the IPPA Agreement.

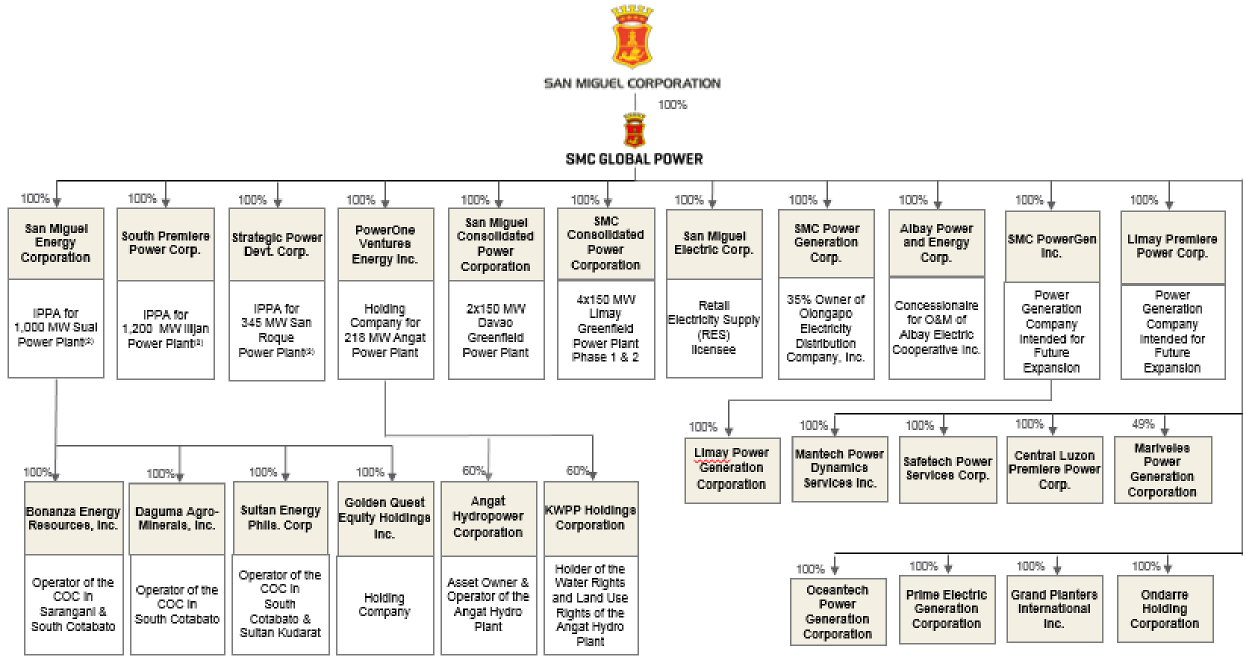
SMC GLOBAL POWER PORTFOLIO

The map below sets out the locations and contracted capacities of the power plants for which SMC Global Power, through its subsidiaries, acts as IPPA, owns or operates, as well as the greenfield power plants that are partially operational or currently under construction.



CORPORATE STRUCTURE[1] / PROJECT CONSORTIUM

The chart below provides an overview of the ownership structure of SMC Global Power and its major operating subsidiaries and joint ventures.



(1) *As of the date of this Prospectus.*
(2) *SMC Global Power manages and controls the capacity of the plants under IPPA agreements with PSALM.*

SMC Global Power also owned, from September 2010 through August 2011, a 620 MW oil-fired power plant located in Limay, Bataan ("**Limay Combined Cycle Plant**"). In August 2011, SMC Global Power sold its 100% equity interest in Panasia Energy Holdings Inc. ("**Panasia Energy**"), the company that owns the Limay Combined Cycle Plant. Accordingly, the Limay Combined Cycle Plant is accounted for as discontinued operations in the consolidated financial statements of SMC Global Power as of and for the year ended December 31, 2011.

SMC Global Power also has ownership and acted as the IPP of the Limay Cogeneration Plant from September 2013 to December 2016. The plant was acquired from Petron Corporation, which remained responsible for the operation and maintenance of the plant. The Limay Cogeneration Plant was later sold back to Petron Corporation.

Neither SMC Global Power nor any of its subsidiaries or associates has ever been subject to any bankruptcy, receivership or similar proceedings. None of the subsidiaries of SMC Global Power has ever been a party to any merger or consolidation.

CORPORATE HISTORY AND MILESTONES

San Miguel Corporation entered the power business in 2009, when it successfully acquired, through privatization auctions by PSALM, the IPPA rights for the Sual Power Plant. In order to consolidate its power generation business, San Miguel Corporation eventually transferred these assets into SMC Global Power. In September 2010, SMC Global Power became a wholly-owned subsidiary of San Miguel Corporation.

The following timeline sets forth key events in the corporate history of SMC Global Power:

January 2008	SMC Global Power is incorporated under the name Global 5000 Investment Inc. (renamed SMC Global Power Holdings Corp. in October 2010)

January 2009	SMC Global Power acquires a 6.13% equity interest in Meralco, which was eventually sold in December 2013.
November 2009	A San Miguel Corporation subsidiary, SMEC, becomes the IPPA for the Sual Power Plant. SMC Global Power acquires a 60% equity interest in SMEC.
January 2010	A San Miguel Corporation subsidiary, SPDC, becomes the IPPA for the San Roque Power Plant. A San Miguel Corporation subsidiary, Panasia Energy, acquires the Limay Combined Cycle Plant. SMEC acquires a 100% equity interest in Bonanza Energy and Daguma Agro, the companies having coal mining rights over approximately 10,000 hectares in Lake Sebu, South Cotabato and Tuanadatu, Maitum, Saranggani Province in Mindanao.
March 2010	SMC Global Power acquires from San Miguel Corporation a 60% equity interest in SPDC, the IPPA for the San Roque Power Plant.
May 2010	SMEC acquires a 100% equity interest in Sultan Energy, with coal mining rights over approximately 7,000 hectares in Lake Sebu, South Cotabato and Bagumbayan, Sultan Kudarat in Mindanao.
June 2010	A San Miguel Corporation subsidiary, SPPC becomes the IPPA for the llijan Power Plant.
September 2010	SMC Global Power becomes a wholly-owned subsidiary of San Miguel Corporation, and acquired from San Miguel Corporation: • a 100% equity interest in SPPC, the company that is the IPPA for the Ilijan Power Plant; • a 100% equity interest in Panasia Energy, which owns the Limay Combined Cycle Plant; and • the remaining 40% equity interests in SMEC and SPDC.
August 2011	SMC Global Power sells its 100% equity interest in Panasia Energy, which owns the Limay Combined Cycle Plant, to a third party, Millennium Holdings, Inc. San Miguel Corporation transfers to SMC Global Power its 100% equity interest in SMELC. SMELC holds a RES license from the ERC.
January 2013	Execution of EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.
July 2013	Groundbreaking of the 2 x 150 MW Davao Greenfield Power Plant.

September 2013	SMC Global Power is awarded as the winning concessionaire for the rehabilitation, operations and maintenance of ALECO. SMC Global Power, through SPI (a wholly owned subsidiary), acquires the 140 MW Limay Cogeneration Plant from Petron Corporation. SMC Global Power agreed to sell its 6.13% interest in Meralco. The sale was completed in March 2014.
October 2013	Groundbreaking of the 4 x 150 MW Limay Greenfield Power Plant.
February 2014	Start of APEC's concession of ALECO's distribution franchise.
November 2014	SMC Global Power acquired 60% of AHC, the owner and operator of the AHEPP.
July 2015	Groundbreaking of the AHEPP rehabilitation.
August 2016	SCPC was granted a RES license by the ERC.
December 2016	SMC Global Power, through SPI, sold the 140 MW Limay Cogeneration Plant back to Petron Corporation.
May 2017	Commercial Operations of Unit 1 of the Limay Greenfield Power Plant.
July 2017	Commercial Operations of Unit 1 of the Davao Greenfield Power Plant.

IPPA POWER PLANTS

The table below summarizes information regarding the power plants whose generation capacity is managed and sold by SMC Global Power under IPPA rights.

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Subsidiary	San Miguel Energy Corporation	Strategic Power Devt. Corp.	South Premiere Power Corp.
IPPA Acquisition Date	11/2009	3/2010	9/2010
Plant Commercial Operation Date	1999	2003	2002
Ownership	Marubeni Corporation, Tokyo Electric Power Corporation(1)	Marubeni Corporation, Kansai Electric Company Ltd.(3)	Korea Electric Power, Corporation, Mitsubishi Corporation, TeaM Energy(2)
Installed Capacity (MW)	2 x 647	3 x 137	2 x 635.5
Net Contracted Capacity (MW)	1,000(4)	345(5)	1,200
Fuel	Coal	Hydro-electric	Natural Gas
Fuel Supply	PT Trubaindo Coal Mining, PT Kaltim Prima Coal	N/A	Camago-Malampaya Gas Fields (through NPC/PSALM)
Market	91% bilateral contract(6)	15% WESM	93% bilateral contract(7)

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Net Capacity Factor (%)			
December 31, 2014	75%	23%	82%
December 31, 2015	69%	35%	71%
December 31, 2016	72%	26%	79%
June 30, 2017	82%	24%	74%
Availability factor (%)			
December 31, 2014	90%	100%	98%
December 31, 2015	82%	98%	85%
December 31, 2016	84%	99%	95%
June 30, 2017	92%	94%	89%
Offtakers	Meralco, ECs, DUs, DCCs, CCs, WESM(8)	Intercompany, WESM	Meralco, WESM
Income Tax Holiday ("ITH") Expiry(9)	July 2014	July 2014	July 2014
IPPA Expiry / Asset Transfer Date	October 2024	April 2028	June 2022

(1) Through TeaM Sual Corporation ("**TeaM Energy**").
(2) Through KEPCO Ilijan Corporation ("**KEILCO**").
(3) Through San Roque Power Corporation.
(4) SMEC is entitled to dispatch up to 1,000 MW, which is the net contracted capacity of the Sual Power Plant. The owner of the plant has the right to generate power in excess of the dispatch instructions of SMEC and sell such excess generation.
(5) SPDC expects the San Roque Power Plant to generate power at levels below its contracted capacity due to water levels in the reservoir and downstream irrigation requirements.
(6) Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs.

(7) The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement up to 2019, which can be extended up to the end of the IPPA.
(8) ECs: Electric Cooperatives; DUs: Distribution Utilities; DCCs: Directly Connected Customers; and CCs: Contestable Customers.

(9) SMEC, SPPC, and SPDC are registered with the BOI as administrator or operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension, beginning on August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentives are limited only to the sale of power generated from these power plants.

POWER GENERATION BUSINESS

Sual Power Plant

Background

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999. It is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with National Power Corporation ("**NPC**") under a 25-year Build-Operate-Transfer ("**BOT**") scheme that expires on October 24, 2024.

On September 1, 2009, SMEC, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the Sual Power Plant in accordance with the provisions of the IPPA Agreement with PSALM (the "**Sual IPPA Agreement**").

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement.

Under the Sual IPPA Agreement, SMEC has the option to acquire the Sual Power Plant in October 2024 without additional consideration. SMEC may exercise the option to acquire the Sual Power Plant prior to October 2024 under certain circumstances, such as changes in law or non-performance by TeaM Energy of its obligations under the ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Sual IPPA Agreement.

Power Offtakers

Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement expiring in 2019 subject to extension up to 2024, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs.

Operations Review

The table below is a summary of operating statistics of the Sual Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Actual Energy Generated (GWh)	6,536	6,066	6,341	3,655	3,571
Electricity sold (GWh):	7,132	7,617	8,015	4,288	4,373
of which: bilateral offtake agreements	6,393	7,048	7,480	4,099	3,998
of which: WESM sales	740	569	535	189	375
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	4,611	4,439	4,400	4,252	5,023
for electricity sold on WESM	4,438	3,609	2,410	3,226	2,140
Net Capacity Factor (%)	75	69	72	84	82
Availability Factor (%)	90	82	84	97	92
Reliability Factor (%)	97	99	97	96	92
Average Net Dependable Capacity (MW)	999	915	955	995	998

Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**") (Lower heating value or "**LHV**")	2,410	2,427	2,419	2,432	2,433

Fuel Supply

The table below sets forth certain information regarding the supply of coal to the Sual Power Plant as of the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Metric tons (thousands)	2,531.2	2,381.8	2,459.0	1,426.7	1,395.5
Average calorific value (kcal/kg)	6,190.7	6,131.0	6,233.2	6,218.0	6,183.0
(in millions ₱)	9,732.8	7,811.7	7,799.3	4,178.1	6,879.7
Average price per metric ton (₱)	3,845.2	3,279.7	3,171.7	2,928.5	4,929.9

For the period 2017 to 2021, KPC will be supplying coal to SMEC. For 2017, KPC will supply 8 panamax shipments which will be increased to 12 panamax shipments per year from 2018 to 2021. Each shipment shall comprise 65,000 metric tons +/- 10%. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy. Under the Sual ECA, TeaM Energy is responsible at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement into electricity in a safe and reliable manner.

The maintenance plan for the Sual Power Plant is agreed upon annually between SMEC, NPC, PSALM, NGCP and TeaM Energy. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage. Planned outages for maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SMEC and recommendations of the plant manufacturer. TeaM Energy is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. TeaM Energy performs periodic maintenance activities on the generating units of the Sual Power Plant during the course of the operations of the plant. The Sual ECA requires TeaM Energy to conduct an annual test to check the capacity and heat rate of the generating units of the Sual Power Plant, if requested by SMEC.

Each of the generating units of the Sual Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 30 days per calendar year. SMEC also expects that TeaM Energy will shut down these units for more significant maintenance and repair work for a total of approximately 60 days in every fifth calendar year.

The table below sets forth actual planned outages of the Sual Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Unit 1	29 days	27 days	74 days	0 day	0 day
Unit 2	30 days	60 days	20 days	0 day	0 day

In 2016, Unit 1 of the Sual Power Plant underwent 60 days major scheduled maintenance which occurs once every 5 years but requested for 14 days more extension. Unit 2, on the other hand, is scheduled to undergo its 30-day scheduled maintenance in 2016 but the actual repair was only 20 days.

The table below sets forth unplanned outages of the Sual Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	2015	2016	2016	2017
Unit 1	12 days	7 days	9 days	7 days	14 days
Unit 2	6 days	34 days	14 days	5 days	15 days

In 2016, Unit 1 of the Sual Power Plant underwent 9 days forced outages which were mostly due to boiler tube leaks, stuck-up gland seal valve and switchyard hot spot on phase C of XCT connector XCT301 and DS301. Unit 2, on the other hand, experienced 14 days forced outages which were mostly due to boiler tube leaks and Generator Current Transformer Differential Fault.

In 2017, 14 days forced outages in Unit 1 were mostly due to condenser tube leaks and boiler water wall tube leaks while 15 days forced outages in Unit 2 during the same year were mostly due to condenser tube leaks and Generator Transformer internal flashover at Phase B on June 14, 2017.

Power Transmission

Power from the Sual Power Plant is transmitted through a 25-kilometer 230 kV transmission line from the Sual Power Plant switchyard to the Kadampat Substation located at Labrador, Pangasinan. The transmission line is owned by TransCo and operated and maintained by its concessionaire, the NGCP.

San Roque Power Plant

Background

The 345 MW San Roque multi-purpose hydroelectric power plant in San Manuel, Pangasinan commenced operations on May 1, 2003 and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited pursuant to a PPA with NPC under a BOT scheme (the "**San Roque PPA**").

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, the irrigation of approximately 34,450 hectares of agricultural land, storage of water that would otherwise flood the Pangasinan plains, and improvement of water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with an IPPA Agreement with PSALM (the "**San Roque IPPA Agreement**"). PSALM remains responsible under the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

Power Plant Capacity

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation ("**SRPC**").

Under the San Roque IPPA Agreement, SPDC has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC, or on some earlier date due to certain events such as changes in law or non-performance by SRPC pursuant to the San Roque PPA.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SPDC is responsible for contracting with the NGCP to wheel power from the delivery point.

Operations Review

The table below is a summary of operating statistics of the San Roque Power Plant during the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Actual Energy Generated (GWh)	695	1,066	798	319	363
Electricity sold (GWh):	841	1,589	1,435	615	546
of which: bilateral offtake agreements	242	863	971	388	462
of which: WESM sales	599	726	464	227	84
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreement	6,302	5,096	5,464	6,329	6,825
for electricity sold on WESM	5,796	3,965	3,251	3,957	5,217
Net Capacity Factor (%)	23	35	26	21	24
Availability Factor (%)	100	98	99	98	94
Reliability Factor (%)	100	100	100	100	100
Average Net Dependable Capacity (MW)	411	415	433	382	361

Water Rights

The generated output energy of the San Roque Power Plant is limited by the "Irrigation Diversion Requirements" set by the NIA. Water allocation is usually dictated by a rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the particular needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires.

Generally, the output energy of San Roque Power Plant is high during planting seasons which covers the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant, and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SPDC, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the NWRB.

Operations and Maintenance

SRPC is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni Corporation and Kansai Electric Power Company Ltd. Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SPDC, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the San Roque PPA.

The maintenance plan for the San Roque Power Plant is agreed upon annually between SPDC, NPC, PSALM, NGCP and SRPC. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance of the generating units are scheduled in such a way that only one unit is shut down at any given time. The power tunnel that delivers water from the reservoir to the generating units also undergoes routine annual maintenance inspections, during which all units are shut down. The maintenance plan is established with consideration given to the dispatch requirements of SPDC and recommendations of the plant manufacturer. SRPC is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. SRPC performs periodic maintenance activities on the generating units of the San Roque Power Plant during the course of the operation of the plant. The San Roque PPA requires SRPC to conduct an annual test to check the capacity of the generating units of the San Roque Power Plant. As of the date of this Prospectus, the generating units of the San Roque Power Plant have attained and maintained the required contracted capacity specified in the San Roque PPA.

Each of the generating units of the San Roque Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 15 days per calendar year sometime between April to June of each year, when water levels at the reservoir are low. Since 2010, during periods when a generating unit is shut down for routine maintenance, the San Roque Power Plant has historically been, and is expected to continue to be, able to generate power at the applicable minimum run rate from the other generating units. The San Roque Power Plant does not have a regular schedule for significant maintenance and repair work.

The power tunnel that delivers water from the reservoir to the generating units also undergoes routine maintenance inspections for approximately 15 days per calendar year. Power tunnel inspections historically have been, and are expected to continue to be, conducted between April to June of each year, after the end of the irrigation period and when water levels at the reservoir are low.

The table below sets forth the actual planned outages of the power tunnel for the San Roque Power Plant for the periods indicated.

Year ended December 31,			Six months ended June 30,	
2014	**2015**	**2016**	**2016**	**2017**
3 days (May 27 to May 29)	6 days (May 26 to June 1)	4 days (May 26 to May 30)	4 days (May 26 to May 30	11 days (May 27 to June 5)

The 4 days planned outages of the San Roque Power Plant during the year 2016 were due to power tunnel inspection, repair of revenue meter repair and installation of individual electronic meter of NGCP.

In 2017, 11 days planned outages of the San Roque Power Plant were due to power tunnel, inspection and annual preventive maintenance of San Roque-San Manuel 230 KV lines.

Power Transmission

Power from the San Roque Power Plant is transmitted through a nine-kilometer 230 kV transmission line from the San Roque Power Plant switchyard to the San Manuel substation located in Pangasinan. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Ilijan Power Plant

Background

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEILCO pursuant to a 20-year ECA with NPC ("**Ilijan ECA**") under a BOT scheme that expires on June 4, 2022. NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.

The Ilijan Power Plant can also run on diesel oil stored on site. On April 16, 2010, San Miguel Corporation successfully bid for the appointment to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, San Miguel Corporation and SPPC, entered into an assignment agreement with assumption of obligations whereby San Miguel Corporation assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA Agreement with PSALM (the "**Ilijan IPPA Agreement**").

Ilijan IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

Under the Ilijan IPPA Agreement, SPPC has the option to acquire the Ilijan Power Plant in June 2022 without any additional payment by SPPC. SPPC may exercise the option to acquire the Ilijan Power Plant prior to June 2022 under certain circumstances, such as changes in law or non-performance by KEILCO of its obligations pursuant to the Ilijan ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Ilijan IPPA Agreement.

Power Offtakers

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement up to 2019, which can be extended up to the end of the IPPA Agreement.

In the year ended December 31, 2014, 2015 and 2016, and for the six months ended June 30, 2016 and 2017, 91%, 93%, 93%, 93%, and 93% respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the year ended December 31, 2014, 2015 and 2016, and for the six months ended June 30, 2016 and 2017, 9%, 7%, 7%, 7%, and 7% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

Operations Review

The table below is a summary of operating statistics of the Ilijan Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Actual Energy Generated (GWh)	8,576	7,434	8,363	4,337	3,904
Electricity sold (GWh):	8,863	7,832	8,630	4,547	3,966
of which: bilateral offtake agreements	8,097	7,284	8,041	4,238	3,682
of which: WESM sales	766	549	589	309	284
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	4,598	4,145	3,657	3,709	4,333
for electricity sold on WESM	3,719	2,339	2,301	2,282	2,699
Net Capacity Factor (%)	82	71	79	83	74
Availability Factor (%)	98	85	95	99	89
Reliability Factor (%)	100	97	99	99	100
Average Net Dependable Capacity (MW)	1,171	1,025	1,140	1,194	1,071
Net Heat Rate (Kilo-Joule/KWh)	6,799	6,463	6,897	6,936	6,859

Fuel Supply

NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Under a fuel supply and management agreement between Shell Exploration B.V. and Occidental Philippines, Inc., NPC supplies natural gas to the Ilijan Power Plant through a 480 km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-in-diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, including output of 1,200 MW guaranteed contracted capacity, base load operation, spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

The maintenance plan for the Ilijan Power Plant is agreed upon annually between SPPC, NPC, PSALM, NGCP and KEILCO. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SPPC and recommendations of the plant manufacturer. KEILCO is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. KEILCO performs periodic maintenance activities on the generating units of the Ilijan Power Plant during the course of the operations of the plant. The Ilijan ECA requires KEILCO to conduct an annual test to check the capacity of the generating units of the Ilijan Power Plant.

Each of the generating units of the Ilijan Power Plant historically has been, and is expected to continue to be, shut down for routine maintenance for approximately 26 days per calendar year. SPPC also expects that KEILCO will shut down these units for more significant maintenance and repair work for a total of 35 to 43 days in every fifth calendar year.

The table below sets forth actual planned outages of the Ilijan Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Block 1	13 days	50 days	6 days	0 day	17 days
Block 2	0 day	32 days	26 days	0 day	6 days

The maintenance of the Ilijan Power Plant is conducted once the minimum equivalent operating hours of 12,000 hours has been met. The minimum equivalent operating hours were not met and therefore there was no planned outage for the year 2016 for Block 1. However, interim combustor inspection of GT1-2, from September 18 to 30, 2016, occurred. The 26-day 2016 planned outage for Block 2 was due to Class B turbine inspection on August 4 to 30, 2016.

The table below sets forth unplanned outages of the Ilijan Power Plant for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2014	**2015**	**2016**	**2016**	**2017**
Block 1	2 days	16 days	0 day	0 day	1 day
Block 2	1 day	4 days	5 days	1 day	0 day

During 2016, no significant outages occurred for Block 1. In contrast, Block 2 underwent a 5-day forced outage during the year due to suspected faulty control signal that triggered the loss of running boiler feed water pumps.

During 2017, no significant outages occurred for both Blocks 1 and 2.

Power Transmission

Power from the Ilijan Power Plant is transmitted through a 500 kV transmission line that connects to the Luzon Grid through the Ilijan-Dasmarinas line and Ilijan-Tayabas line. The transmission line is owned by TransCo, and operated and maintained by NGCP.

ANGAT HYDROELECTRIC POWER PLANT ("AHEPP")

Background

AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila, AHEPP was privatized through an asset purchase agreement between PSALM and K-Water. K-Water assigned its rights in favor of "AHC", a joint venture between K-Water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprising four Main Units, and three Auxiliary Units. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The Auxiliary Unit 3 was manufactured by Allis-Chalmer and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which is the most commonly used model in hydroelectric power generation.

Fuel Supply and Water Rights

The AHEPP utilizes water resources of the Angat reservoir. The Angat reservoir is 35 km long and 3 km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following two purposes:

- water resources from water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir are used to supply 97.0% of the residential drinking water of Metro Manila; and

- water resources from water discharged through Main Units flows downstream to the Bustos reservoir are utilized for irrigation purposes.

Water rights surrounding the project are co-owned and governed by the following entities, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by NWRB as implemented by a Memorandum of Agreement on the Angat Water Protocol between MWSS, NIA, AHC, PSALM, NPC and NWRB:

- MWSS, for domestic water supply to Metro Manila;

- Provincial government of Bulacan, for water supply in the Bulacan Province;

- NIA, for irrigation diversion requirements; and

- AHC/KWPP, for power generation.

Power Offtakers

AHC sells majority of its generated capacity to the WESM at the prevalent spot price. The Main Units are being operated as peaking units. The strategy for the Main Units is to allocate daily water releases during peak hours. Auxiliary Units are being operated as base load units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation.

AHC is currently exploring options to contract the capacity of its Auxiliary Units.

Operations and Maintenance

AHC undertakes the operation and maintenance of AHEPP in-house. The operations and maintenance team consists of the incumbent local technical team who have been operating the AHEPP, supported by technical experts seconded from K-Water.

AHC has entered into technical services agreements with each of K-Water and PVEI to ensure that the appropriate level of technical and management support will be provided to support the operation and maintenance requirements of AHC.

LIMAY GREENFIELD POWER PLANT

Background

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW coal-fired thermal power plant located in Limay, Bataan, that commenced constructions in October 2013. Unit 1 of the Limay Greenfield Power Plant achieved commercial operations in May 2017. Unit 2 is expected to commence operations in the latter part of 2017, while Units 3 and 4 are expected to go on-line in 2018 and 2019, respectively. The engineering, procurement, and construction contractors of the Limay Greenfield Power Plant are Formosa

Heavy Industries and True North Manufacturing Services Corporation.

SCPC acquired all of the rights and obligations on the completion of Units 3 and 4 of the Limay Greenfield Power Plant from another wholly-owned subsidiary, Limay Premiere Power Corp., in June 2017. Mantech Power Dynamics Services Inc., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Limay Greenfield Power Plant is fully contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in ten (10) years from effective date subject to extension upon mutual agreement between the parties. Units 3 and 4 of the Limay Greenfield Power Plant are also contracted with distribution utilities and industrial customers. SCPC was granted a RES license on August 24, 2016, which gave it the ability to directly contract with industrial customers.

Fuel Supply

SCPC has executed two long-term coal supply agreements with Bayan and KPC, with terms of until 2022 and five (5) years from effectivity date, respectively. As base quantity, Bayan is required to supply 5 panamax shipments during the term of the contract, with an optional additional quantity of 3 shipments. KPC on the other hand will supply 4 panamax shipments, with an option on the part of SCPC to add 4 more shipments upon prior notice. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SCPC also has executed spot coal supply contracts with other suppliers. SCPC also has a 3-year contract of affreightment with D'Amico Shipping Singapore Pte. Ltd. from January 1, 2017 to December 31, 2019.

DAVAO GREENFIELD POWER PLANT

Background

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCPC, is a 2 x 150 MW coal-fired thermal power plant located in Malita, Davao Occidental, that commenced constructions in September 2013. Unit 1 of the Davao Greenfield Power Plant achieved commercial operations in July 2017. Unit 2 is expected to commence operations in 2018. The engineering, procurement, and construction contractors of the Davao Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation.

Safetech Power Services Corp., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Davao Greenfield Power Plant is substantially contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in ten (10) years from effective date subject to extension upon mutual agreement between the parties.

Fuel Supply

SMCPC has existing spot coal supply contracts with Bayan and KPC among others. Currently, SMCPC is evaluating opportunities to lock-in long-term coal supply agreements.

DISTRIBUTION AND RETAIL SERVICES

Albay Power and Energy Corp. ("APEC")

On October 29, 2013, after the open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. There is no transfer of the franchise to operate the distribution system or the ownership of the distribution assets. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power established APEC as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

Retail Electric Supply

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The two RES licenses issued to SMC Global Power, through SMELC and SCPC, allow it to enter into RSCs with contestable customers and expand its customer base. As of June 30, 2017, SMELC and SCPC supply an equivalent of 302 MW to various facilities of San Miguel Corporation and other contestable customers.

Coal Investments

Pursuant to its strategy of integrating viable complementary business to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which depending on prevailing coal prices and the related logistical costs, may provide a significant additional source of coal fuel for its planned and existing greenfield power plants. Such assets are in the preparatory stage of its mining activities as of June 30, 2017.

The table below sets forth certain information regarding these assets.

Subsidiary	Description of Asset	Mining Site	Coal Operating Contract ("COC")
Bonanza Energy	COC with the DOE covering eight coal blocks with a total area of approximately 8,000 hectares	Lake Sebu South Cotabato and Maitum, Saranggani Province	COC for exploration awarded in May 2005, converted to COC for development and production in December 2009
Daguma Agro	COC with the DOE covering two coal blocks with a total area of approximately 2,000 hectares.	Lake Sebu, South Cotabato	COC for exploration awarded in November 2002; converted to COC for development and production in March 2008
Sultan Energy	COC with the DOE covering seven coal blocks with a total area of 7,000 hectares	Lake Sebu, South Cotabato and Bagumbayan, Sultan Kudarat	COC for exploration awarded in February 2005; converted to COC for development and production in February 2009

The DOE approved the conversion of the COC for Exploration to COC for Development and Production of Daguma Agro, Sultan Energy and Bonanza Energy, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term[1]
Daguma Agro	126	November 19, 2008	10 years
Sultan Energy	134	February 23, 2009	10 years
Bonanza Energy	138	May 26, 2009	10 years

[1] The term is renewable as may be agreed with and approved by the DOE.

SALES STRATEGY AND CUSTOMERS

SMC Global Power seeks to sell substantially all of the power generated by Sual and Ilijan Power Plants and its Limay and Davao greenfield power plants to customers pursuant to offtake agreements.

Currently, the entire capacity of the Ilijan Power Plant and Unit 1 of the Sual Power Plant are contracted under long-term offtake agreements with Meralco and its affiliates, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, and industrial customers under existing offtake agreements. These agreements typically include take-or-pay provisions whereby a customer is required to pay for a minimum contracted amount of power, regardless of whether or not the customer takes delivery of the entire amount, with the result that revenue from these offtake agreements is relatively stable during the duration of the agreements. If the generation output available to the subsidiaries of SMC Global Power from these plants exceeds the amount deliverable under their offtake agreements, such subsidiaries of SMC Global Power offer the excess power for sale through the WESM at the market clearing price.

The power generation capacity of the San Roque Power Plant and the AHEPP at any given time depends on the water levels in the reservoir and downstream irrigation requirements. As such, these plants sell majority of their generated capacity to the WESM at the prevailing spot prices. The San Roque Power Plant and the Main Units of the AHEPP are being operated as peaking units. Available water is used to generate power during peak hours when prices are higher.

The Auxiliary Units of AHEPP are being operated as base load units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discretion to choose the hour of allocation. AHC is exploring options to contract the capacity of its Auxiliary Units.

In the years ended December 31, 2014, 2015 and 2016 and the for the six months ended June 30, 2016 and 2017, approximately 88%, 89%, 91%, 92%, and 91% respectively, of consolidated volume of power sold by the Company are to customers pursuant to offtake agreements. Sales to Meralco accounted for approximately 64%, 62%, 60%, 63%, and 59% of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2014, 2015 and 2016 and for the six month ended June 30, 2016 and 2017, respectively. Sales through the WESM accounted for approximately 12%, 11%, 9%, 8%, and 9% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2014, 2015 and 2016 and for the six months ended June 30, 2016 and 2017, respectively. In 2016 and for the six months ended June 30, 2017, 2% of consolidated sales volume of SMC Global Power was for distribution customer sales through APEC.

EXPANSION PLANS

SMC Global Power identifies potential investments by analyzing the demand for power and power-related services. Factors such as Philippine GDP and population growth, customer profile and mix, accessibility to the grids, and industrial expansion are considered. SMC Global Power also looks at commercial viability, potential costs (whether for development or acquisition) and competitive costs, as well as land acquisition and environmental protection issues and the impact of environmental protection requirements on overall profitability of the project, and the availability of government incentives for a particular project.

Over the period from 2015 to 2020, growth in demand for electricity in the Philippines is expected to exceed the growth rate of the Philippine GDP, according to the DOE. Construction of new power plants on average takes a minimum of three years. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the existing power supply shortage. The latter is exacerbated by an existing base of old government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and bidding for selected NPC-owned power generation plants that are scheduled for privatization.

SMC Global Power through its subsidiaries, is in the process of completing the construction of two greenfield power plants, the Limay and Davao Greenfield Power Plants, with 750 MW of plants' combined generation capacity commissioned in 2016 and 2017 and the last 150 MW, expected to be commissioned in 2018. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demand.

Power Generation Capacity

Greenfield Power Plants

SMC Global Power is currently expanding its power portfolio nationwide through greenfield power plants over the next few years, depending on market demand, including the following two coal-fired circulating fluidized bed ("**CFB**") power projects which are under construction:

The following timeline sets forth key project milestones for the Davao Greenfield Power Plant:

January 2013	Executed engineering, procurement and construction contract ("**EPC Contract"**) with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plant.
June 2013	Obtained Environmental Compliance Certificate ("**ECC**") and Pioneer Status from BOI (tax holiday).
July 2013	Obtained Customs Accreditation and Registration from Bureau of Customs, subject to annual renewal.
August 2013	Site hand over.
September 2013	Obtained Certificate of Authority to Import Capital Equipment, Spare Parts and Accessories from BOI.
2014 to November 2016	Construction and engineering of Units 1 and 2, and signing of offtake agreements.
October 2016	Provisional Authority to Operate was granted by the ERC in favor of Unit 1.
June 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 2.
July 2017	Unit 1 commenced commercial operations.

The following timeline sets forth key project milestones for the Limay Greenfield Power Plant:

January 2013	Executed EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.
July 2013	Obtained Customs Accreditation and Registration from Bureau of Customs, subject to annual renewal.

September 2013	Obtained ECC and Pioneer Status from BOI (tax holiday).
January 2014	Site hand over.
2014 to 2017.	Construction and engineering of Units 1 and 2, and Signing of offtake agreements.
August 2016	RES License was granted by the ERC.
March 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 1.
May 2017	Unit 1 commenced commercial operations.
June 2017	SCPC acquired all the rights and obligations in the completion of Units 3 and 4 from Limay Premiere Power Corp.
August 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 2.

SMC Global Power employs CFB technology for each of the planned greenfield power plants. Coal-fired power plants generate power by burning coal, a process that generates carbon dioxide, sulfur dioxide and other pollutants. CFB technology is a type of technology employed to transform coal into a fuel source that is relatively low in such pollutant emissions compared with other coal-fired power plants. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as chemically washing minerals and impurities from the coal, gasification, treating the flue gases with steam to remove sulfur dioxide, carbon capture and storage technologies to capture the carbon dioxide from the flue gas and dewatering lower rank coals (brown coals) to improve the calorific value, thereby improving the efficiency of the conversion into electricity. CFB technology permits relatively low emissions of carbon dioxide, sulfur dioxide and other pollutants. CFB technology also uses a low calorific value coal fuel, comparable with the type expected to be sourced from the coal mining assets of SMC Global Power in Mindanao.

In selecting CFB technology for these greenfield power plants, SMC Global Power is expected to save on costs via: 1) third party bulk order discounts for coal fuel supply, 2) inter-operability, 3) reduced training costs for operators, 4) spare parts exchange, and 5) common coal handling facilities, among other savings initiatives.

Acquisition of Existing Power Generation Capacity

SMC Global Power intends to continue its strategic acquisitions of existing power generation capacity by bidding for selected Government-owned power generation plants that may be privatized under the IPPA framework or pursuant to asset sales.

COMPETITION

The Group form one of the largest power companies in the Philippines, with a 15% share of the power supply of the National Grid, 20% share of the Luzon Grid and 5% share of the Mindanao Grid in each case as of June 30, 2017, based on ERC Resolution No. 05, Series of 2017. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of PSALM-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase.

Multi-nationals that currently operate in the Philippines and could potentially compete against SMC Global Power in the privatization process include KEPCO, Marubeni Corporation, Tokyo Electric Power Corporation, AES Corporation and Sumitomo, among others. Several of these competitors have greater financial resources, and have more extensive operational experience and other capabilities than SMC Global Power, giving them the potential ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

CUSTOMERS

SMC Global Power, through its subsidiaries, sells power, through power supply agreements, either directly to customers (distribution utilities, electric cooperatives and industrial customers) or through the WESM.

Customers	Year ended December 31,						Six months ended June 30,			
	2014		2015		2016		2016		2017	
	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Meralco	10,801	47,234	10,317	40,889	10,402	39,566	5,799	22,138	4,998	22,998
WESM	2,110	9,623	1,844	6,217	1,588	4,154	725	2,212	757	2,061
Total Major Customers	12,911	56,857	12,161	47,106	11,990	43,720	6,524	24,350	5,755	25,059
Others[(1)]	4,090	27,437	4,397	30,401	5,356	34,252	2,703	16,722	2,650	15,638
Total Sales	17,001	84,294	16,558	77,507	17,346	77,972	9,227	41,072	8,405	40,697

[(1)] Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and Inter-company sales.

COMPLIANCE WITH ENVIRONMENTAL LAWS

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("**Clean Air Act**"), the Philippine Clean Water Act of 2004 ("**Clean Water Act**"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and the Department of Labor and Employment Occupational Safety and Health Standard of 1989, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being as well as their physical safety and health.

SMC Global Power complies for its company-owned generation plants, and it believes that the IPPs for each of the IPPA Power Plants managed by SMC Global Power, through its subsidiaries, comply, in all material respects with all applicable safety, health and environmental laws and regulations.

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008.

For each of its greenfield power plants, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary ECC in accordance with Philippine law.

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site clean-up, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations and cash flow of the Company.

EMPLOYEES

As of June 30, 2017, SMC Global Power has 130 employees. All employees are based in Philippines.

Divisions/ Business Units	Number of Employees		
	Executives and Managers	Supervisors and Rank & File	TOTAL
Billing and Settlement	0	8	8
Comptrollership	0	13	13
Energy Sourcing and Trading	0	12	12
Finance Services	0	10	10
Financial Planning & Analysis	0	1	1
HR & Administration	0	12	12
Internal Audit	0	4	4
Legal	0	3	3
Executive Management	35	0	35
Plant Operations	0	5	5
Regulatory Compliance	0	3	3
Risk Management & Procurement	0	10	10
Sales & Marketing	0	4	4
Treasury	0	7	7
Utility Economics	0	3	3
TOTAL	**35**	**95**	**130**

Employees of SMC Global Power are not members of any labor union since 2008. The Company has not experienced any work stoppages and considers its relationship with its employees to be good. In addition to the statutory benefits, SMC Global Power initiates benefits to provide for the increased security of its employees in the following areas: healthcare, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits and survivor security and death benefits.

With the ensuing 12 months, SMC Global Power may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

RECENT DEVELOPMENTS

On August 8, 2017, the Board of Directors of SMC Global Power approved and authorized the Company to seek the consent of holders of record as of a certain date, of its ₱15 billion fixed rate peso bonds, representing more than 50% of the bonds' aggregate principal amount, to the proposed amendment to Section 7.2 of the bonds' Trust Agreement dated June 23, 2016. The proposed amendment pertains to the use of net debt to equity and interest coverage ratios as part of the bonds' financial covenants instead of the leverage ratio to ensure financial flexibility and capacity to secure funding for its capital expenditure requirements and other business plans. Such amendment would also allow the Company to align its credit metrics with those used by the Philippine power companies and with its existing long-term debt obligations. The Amendment Agreement to the Trust Agreement was signed on October 11, 2017.

TRANSACTIONS WITH RELATED PARTIES

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

The following are the transactions with related parties and the outstanding balances (in millions of ₱):

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
San Miguel Corporation	**June 30, 2017**	**31**	**308**	**6**	**3**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	-	661	-	6		
Entities Under Common Control	**June 30, 2017**	**1,062**	**380**	**749**	**176**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	10,249	3,301	1,590	562		
	June 30, 2017	**-**	**-**	**-**	**-**	180 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	17,884	-	4,064	-		
Associate	**June 30, 2017**	**452**	**79**	**56**	**28**	30 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	1,005	198	91	36		
	June 30, 2017	**33**	**-**	**1,427**	**-**	92 days	Unsecured
	December 31, 2016	-	-	-	-	Interest-bearing	no impairment
	June 30, 2017	**7**	**-**	**254**	**-**	9 years; interest-bearing	Unsecured; no impairment
	December 31, 2016	13	-	255	-		
Associates of Entities under Common Control	**June 30, 2017**	**481**	**8**	**88**	**8**	30 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	763	200	102	29		
	June 30, 2017	**-**	**-**	**-**	**-**	7 years; interest-bearing	Secured
	December 31, 2016	-	-	-	2,687		
Others	**June 30, 2017**	**11**	**-**	**41**	**-**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	December 31, 2016	84	-	37	-		
	June 30, 2017	**2,077**	**775**	**2,621**	**215**		
	December 31, 2016	29,998	4,360	6,139	3,321		

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

Amounts owed by an associate consists 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, and management fees charged to AHC by PVEI.

Amounts owed to related parties consist of trade and non-trade payables pertaining to management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.

The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce, included as part of "Long-term debt" account in the consolidated statements of financial position.

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

(In Millions)	**June 30, 2017**	December 31, 2016	December 31, 2015
Short-term employee benefits	**₱42**	₱39	₱37
Retirement costs	**1**	1	1

DESCRIPTION OF PROPERTIES

SMC Global Power owns the Davao Greenfield Power Plant and Limay Greenfield Power Plant. However, SMC Global Power does not own the IPPA plants until it elects a transfer of ownership at the expiry of the IPPA Agreement. The principal office address of SMC Global Power is located at 155 EDSA, Wack-Wack, Mandaluyong City, Philippines and it has another office located at No. 7 St. Francis Street, Mandaluyong City, Philippines. These premises are leased by SMC Global Power from San Miguel Properties, Inc., a subsidiary of San Miguel Corporation.

CERTAIN LEGAL PROCEEDINGS

Petition to stop the imposition of the increase in generation charge

SMEC, SPPC and SPDC and other generation companies became parties to a petition filed in the Supreme Court 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 Supreme Court issued a Temporary Restraining Order ("**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. The TRO was originally for 60 days, and was extended for another 60 days. The case is pending resolution by the Supreme Court.

ERC Order voiding WESM prices

In the meantime, on March 3, 2014, an ERC Order was issued declaring the prices in the WESM for the November and December 2013 billing months, as null and void, and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices.

SMEC, SPPC and SPDC filed a request with the ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order.

On June 26, 2014, SMEC, SPPC, SPDC, and SPI filed with the Court of Appeals a Petition for Review of these orders.

The Court of Appeals, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC and SPI, declaring the ERC Order null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 in ERC Case No. 2014-021 MC and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply of months of November to December 2013.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to ₱2.625 billion, plus interest.

Ilijan IPPA Agreement Dispute

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 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. In its Complaint, SPPC requested the Court 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. On even date, the Court 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. The TRO was extended for until September 28, 2015.

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

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the Court denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the Court's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent Court and its assailed Orders." Pursuant to the order of the Court of Appeals, SPPC filed its Memorandum on June 29, 2017, the last pleading filed in this case. Thereafter, the case was submitted for resolution.

The preliminary conference on the Regional Trial Court case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. Thereafter, the case was referred to judicial dispute resolution. During the dispute conference between the parties on September 28, 2017, the judicial dispute process was terminated. The parties were required to submit their respective position papers on whether or not the case should be re-raffled. In compliance with the Order of the Regional Trial Court dated October 24, 2017, on December 8, 2017 SPPC filed its Comment and Opposition to the Motion for Inhibition filed by PSALM.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

Complaints for estafa and corruption against PSALM officers

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, before the Department of Justice ("**DOJ**"), against certain officers of PSALM, in connection with the termination of SPPC's 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 million. The case is still pending with the DOJ as of June 30, 2017.

Complaints for plunder and corruption against PSALM, TPEC, and TeaM Energy

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019 before the DOJ against a certain officer of PSALM, and certain officers of TPEC and TeaM Energy, 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 Information against the respondents for (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On June 17, 2016, SMEC filed with the 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 of electricity generated from capacity in excess of the 1000 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). 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.

Pending for the resolution are (a) PSALM's Motion for Preliminary Hearing and Special and Affirmative Defenses and (b) SMEC's Omnibus Motion (to Admit Supplemental Complaint and to Allow Future Consignation without Tender).

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

On July 5, 2017, SMEC consigned with the RTC 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. With the submission of manifestation from PSALM, the Motion to Admit Second Supplemental Complaint is submitted for resolution.

The DOJ issued a Resolution, dated October 25, 2017, partially granting the Petition for Review filed by respondents Suguru Tsuzaki, TPEC, Koichi Tamura and TSC by ruling that the "assailed Resolution is REVERSED AND SET ASIDE insofar as the conduct of preliminary investigation." The resolution further affirmed the transmittal of the records of the case to the Office of the Ombudsman for its disposition. On November 17, 2017, SMEC filed a motion for partial reconsideration of the said Resolution.

Refund of system loss charge

In 2008, Meralco filed a petition for dispute resolution against PEMC, TransCo, NPC and PSALM seeking, among others, the refund of the transmission line loss components of the line rentals associated with PSALM/NPC bilateral transactions from the start of the WESM operations and Transition Supply Contract ("**TSC**") implemented in 2006. In this case, the ERC concluded that Meralco was being charged twice considering that it already paid line rental to the WESM beginning June 2006. Hence, the ERC ordered PSALM/NPC to refund Meralco the 2.98% system loss charge embedded in the NPC Time-of-Use ("**NPC TOU**") rate (Meralco vs. PSALM, NPC, TransCo).

On March 4, 2013, the ERC issued a subsequent order directing Meralco (i) to collect this system loss charge from the Successor Generating Companies ("**SGCs**"), which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs. PSALM appealed the ERC's March 4, 2013 order to the Court of Appeals.

In compliance with the ERC's March 4, 2013 order, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC (including SMEC and SPPC). On September 20, 2013, SMEC and SPPC jointly with the other SGCs filed a Motion to Dismiss before the ERC, which to this day remains unresolved by the ERC.

Validity of Concession Agreement with ALECO

The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed by a group of individuals headed by Jaime Chua (the "**Appellants**"), the alleged president of ALECO, on December 16, 2014, enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global Power. The foregoing Complaint also questioned the validity of the Concession Agreement due to alleged oppressive and disadvantageous provisions therein. On September 29, 2015, the trial court upheld the validity of the Concession Agreement and dismissed the Complaint. As a result, the Appellants filed an appeal with the Court of Appeals. To date, the case is still pending with the appellate court.

Other than those mentioned above, there are no material pending legal proceedings to which SMC Global Power or any of its subsidiaries and affiliates is a party or to which any of their material assets are subject.

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

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

Stockholders

As of the date of this Prospectus, the Company has eight stockholders, seven of whom are individuals with at least five hundred shares each. The following sets out the shareholdings of the aforementioned eight stockholders and the approximate percentages of their respective shareholdings to the total outstanding common stocks of SMC Global Power:

Name of Stockholder	Class of Securities	Number of Shares	% of O/S Shares
San Miguel Corporation	Common	1,250,000,500	100.00%
Ramon S. Ang	Common	500	0.00%
Ferdinand K. Constantino	Common	500	0.00%
Aurora T. Calderon	Common	500	0.00%
Virgilio S. Jacinto	Common	500	0.00%
Jack G. Arroyo, Jr.	Common	500	0.00%
Consuelo M. Ynares-Santiago	Common	500	0.00%
Josefina Guevara-Salonga	Common	500	0.00%

Dividend Policy

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

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

Historically, the Board of Directors of the Company has approved the declaration and payment of the following dividends from SMC Global Power to its shareholders in the past three (3) years, as follows:

2016

Date of Declaration	Amount (₱)	Type of Dividend	Payment Date
June 7, 2016	1,500,000,000	Cash	June 14, 2017
August 11, 2016	1,500,000,000	Cash	August 18, 2016

2015

Date of Declaration	Amount (₱)	Type of Dividend	Payment Date
March 25, 2015	1,500,000,000	Cash	March 31, 2015
July 2, 2015	1,500,000,000	Cash	July 9, 2015
November 5, 2015	1,500,000,000	Cash	November 10, 2015

2014

Date of Declaration	Amount (₱)	Type of Dividend	Payment Date
March 25, 2014	1,500,000,000	Cash	April 8, 2014
June 3, 2014	3,500,000,000	Cash	June 10, 2014
August 19, 2014	2,500,000,000	Cash	August 29, 2014

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

SMC Global Power has not sold unregistered or exempt securities nor has it issued securities constituting an exempt transaction within the past three (3) years as set out in "Description of Debt" of the Prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto, as at and for the years ended December 31, 2016, 2015 and 2014 and for the six months ended June 30, 2017 and 2016 included elsewhere in this Prospectus. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.

CRITICAL ACCOUNTING POLICIES

For a discussion of the critical accounting policies and significant accounting judgments and estimates of SMC Global Power please see Notes 3 and 4 of the consolidated financial statements included in this Prospectus.

In accounting for its IPPAs, Agreements with PSALM, SMC Global Power's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The management of SMC Global Power has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the IPPA Power Plants and therefore accounted for the IPPA Agreements as a finance lease. Accordingly, SMC Global Power recognized the IPPA Power Plants in its statements of financial position as an asset under "Property, plant and equipment" and recognized the agreed monthly payments due to PSALM under the IPPA Agreements as a liability under "Finance lease liabilities". In each case, the amount initially recognized equaled the present value of the agreed monthly payments to PSALM. Please see Notes 3, 4, 6 and 13 of the audited consolidated financial statements included in this Prospectus.

RESULTS OF OPERATIONS

Description of Certain Components of Our Results of Operations

Sale of Power and Electricity

Sale of power is revenue derived substantially from offtake agreements. It is recognized in the period when actual power or capacity is generated, transmitted and sold to the customers, net of related discounts and adjustments. Retail and other power-related services is revenue from the supply of power to the customers. The Uniform Filing Requirements on the rate unbundling released by the ERC specified the following bill components, as may be applicable: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT, local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of SMC Global Power's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Cost of Power Sold

Cost of power sold consists primarily of (i) cost of coal, fuel oil and other consumables (which consists primarily of the cost of purchasing coal for delivery to the IPP for the Sual Power Plant and greenfield power plants), (ii) energy fees, which reflect the variable component of the monthly payments due from SMC Global Power to PSALM under the IPPA Agreements; (iii) depreciation expense relating to the Sual, San Roque and Ilijan Power Plants under the finance lease accounting method applicable to the IPPA Agreements and greenfield power plants; (iv) power purchased from external sources, which represents the cost of purchasing power from the WESM and other generators.

Operating Expenses

For the years ended December 31, 2016, 2015 and 2014 and for the six months ended June 30, 2017 and 2016, operating expenses consist principally of management fees, taxes and licenses, outside services, rent, corporate social responsibility-related expenses, market fees, impairment losses on receivables, donations, and other expenses.

Other Income (Charges)

For the years ended December 31, 2016, 2015 and 2014 and for the six months ended June 30, 2017 and 2016, other income (charges) consists mainly of (i) PSALM monthly fees reduction; (ii) finance cost, (iii) foreign exchange gains (losses), (iv) equity in net losses of an associate and joint ventures, (v) interest income and (vi) miscellaneous income (charges).

Under SMC Global Power's IPPA Agreements, each of the fixed monthly payments made is apportioned between finance cost and reduction of the related finance lease liability so as to achieve a constant rate of interest on the remaining balance of the finance lease liability. Foreign exchange gains and losses result from the effect of exchange rate movements on SMC Global Power's foreign currency-denominated monetary assets and liabilities.

Income Tax Expense

The income tax provision of SMC Global Power consists of:

- Current income tax
- Deferred income tax

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four (4) years from August 1, 2010 to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCPC and SCPC (Phase I, Units 1 and 2) were registered with and granted incentives by the BOI on a pioneer status for six (6) years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. In 2016, SCPC (Phase II Units 3 and 4) was registered with the BOI and granted an ITH for three (3) years. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

Results of Operations — Period to Period Comparison

Six months Ended June 30, 2017 compared to Six months Ended June 30, 2016

Revenues

The Group's offtake volume for the period ended June 30, 2017 was 8,405 gigawatt hours (GWh), 9% lower compared to the same period last year due to lower bilateral volumes caused by: (i) the sale of Limay Cogeneration Plant of SPI in December 2016, (ii) the maintenance shutdown of Ilijan Power Plant and Malampaya gas facility during the first quarter, (iii) Sual Unit 2 shutdown due to transformer failure starting last June 14,and (iv) Ilijan Block 2 shutdown from April 9 to 17 after a series of earthquakes in Batangas.

As a result, consolidated net revenues for the first semester of 2017 registered at ₱40,697 million, 1% lower compared to last year's ₱41,072 million. However, excluding the Limay Cogeneration

Plant's operations in 2016, consolidated net revenues would have been better by 11%.
Cost of Power Sold

Cost of power sold increased by 11%, to ₱25,090 million for the first half of 2017 from ₱22,704 million for the same period of 2016. The increase was mainly attributable to higher cost of coal for the Sual Power Plant and higher energy fees incurred by the Ilijan Power Plant due to utilization of diesel resulting from the Malampaya gas facility shutdown. The increase was mitigated by the drop in SPI's cost of sales by ₱1,805 million following the sale of its Limay Cogeneration Plant.

Operating Expenses

Operating expenses declined by 13% to ₱2,292 million for the first semester of 2017 from ₱2,627 million in 2016. The decrease was due to lower operating expenses incurred by SPI in 2017 by ₱292 million and lower corporate social responsibility project-related expenses incurred by the Group for the first two quarters of 2017 as compared to last year.

Operating Income

As a result, consolidated income from operations for the first semester of 2017 at ₱13,315 million, fell by 15% from last year's ₱15,741 million.

Other Income (Charges)

Net foreign exchange differential from US dollar-denominated liabilities fell from ₱43 million gain in 2016 to ₱1,960 million loss in 2017 due to the depreciation of the Philippine peso against the US dollar during the first half of 2017 compared to 2016 for the same period.

Interest expense and other financing charges grew by 14% or ₱824 million due to the outright recognition of expense for the unamortized debt issue costs of the pre-terminated US$359 million long-term debt of SCPC.

Equity in net losses declined from ₱100 million for the period ended June 30, 2016 to ₱45 million same period this year, primarily due to lower net losses of AHC as a result of its improved operating income.

Income Tax Expense

Income tax expense for the first semester declined by 29% from last year's ₱3,080 million to ₱2,179 million this year, as a result of: (i) lower operating income of the Group, largely on account of the sale of SPI's power plant, which consequently decreased the current income tax by ₱725 million and (ii) lower deferred income tax expense by ₱166 million recognized on the temporary difference between the actual monthly fixed payments of the IPPA Power Plants to PSALM over the finance lease liability-related expenses.

Net Income

Consequently, the consolidated net income of the Group for the first two quarters decreased from ₱6,746 million in 2016 to ₱2,655 million in 2017.

Six months Ended June 30, 2016 compared to Six months Ended June 30, 2015

Revenues

The Group's offtake volume for the first half of 2016 was 9,227 GWh, 13% higher than 2015. All the power plants delivered higher bilateral volumes with Ilijan Power Plant leading the growth. The Ilijan Power Plant experienced maintenance outage and natural gas restrictions, limiting its generation capacity in 2015. This resulted to consolidated net revenues of ₱41,072 million, 2%

higher than the ₱40,455 million posted in 2015, which was moderated by lower average realization prices for both bilateral and WESM volumes.

Cost of Power Sold

Cost of power sold declined by 8% from ₱24,788 million for the first half of 2015 to ₱22,704 million in 2016 same period due to the following principal factors: (i) cost of coal decreased by 16% due to lower coal prices for the Sual and Limay Cogeneration Plants coupled with Sual's lower coal consumption caused by plant outages and emergency shutdowns experienced in 2016, and (ii) energy fees declined by 10% on account of lower natural gas prices for the Ilijan Power Plant.

Operating Expenses

Operating expenses grew by 27% from ₱2,070 million for the period ended June 30, 2015 to ₱2,627 million of the same period in 2016. The increase is attributable to: (i) higher business taxes of ₱273 million relating to local business taxes of the IPPAs, real property taxes of the Limay Cogeneration Plant and documentary stamp taxes on advances to related parties, (ii) additional corporate social responsibility project-related expenses of ₱245 million, and (iii) higher repairs and maintenance incurred for the Limay Cogeneration Plant by 59 million.

Operating Income

Consolidated income from operations reached ₱15,741 million in the first half of 2016, 16% higher than the previous year of ₱13,596 million. The increase was mainly due to the improved bilateral volume and margin brought by lower generation costs.

Other Income (Charges)

Interest income for the first semester declined from ₱290 million in 2015 to ₱116 million in 2016 on account of lower average cash balance due to higher capital expenditures for the Group's power plant projects and recognition of interest income on past due non-trade receivables in 2015 amounting to ₱106 million.

Equity in net losses increased from ₱94 million in 2015 to ₱100 million in 2016, primarily because of higher net loss posted by AHC due to lower revenue caused by the decline in average realization price for WESM volume.

Net foreign exchange gain of ₱43 million recognized for the first half of 2016 was a complete turnaround from the net foreign exchange loss of ₱1,273 million recognized from US dollar-denominated liabilities in 2015. This is primarily because the US dollar foreign exchange closing rate remained at ₱47.06 as of December 31, 2015 and June 30, 2016 versus the depreciation of Philippine peso against the US dollar from ₱44.72 as of December 31, 2014 to ₱45.09 as of June 30, 2015.

Income Tax Expense

Income tax expense for the first half grew by 51% from ₱2,041 million in 2015 to ₱3,080 million in 2016 as a result of the following: (i) improved operating income of the Group which consequently increased the current income tax by ₱499 million and (ii) higher deferred income tax expense by ₱552 million recognized on the temporary difference between the actual monthly fixed payments to PSALM over the finance lease liability-related expenses.

Net Income

As a result of the aforementioned reasons, the consolidated net income of the Group for the first semester increased from ₱3,943 million in 2015 to ₱6,746 million in 2016.

Six months Ended June 30, 2015 compared to Six months Ended June 30, 2014

Revenues

Sales of power decreased by 7.5% from ₱43,754 million in the six months ended June 30, 2014, relflecting the sale of 8,789 GWh of power, to ₱40,455 million in the six months ended June 30, 2015, reflecting the sale of 8,153 GWh of power. The decrease in revenue was mainly driven by the significant decline in the sales quantity of the Ilijan Power Plant owing to the lower output of the plant caused by the scheduled maintenance outage of Malampaya gas facility in March and April 2015, the annual outage of Block 2 of the Ilijan Power Plant and a series of natural gas restrictions.

Cost of Power Sold

Energy fees decreased by 25% from ₱15,604 million in the six months ended June 30, 2014 to ₱11,651 million in the six months ended June 30, 2015. This decrease represents primarily the significant reduction in net generation of the Ilijan Power Plant (from 4,301 GWh to 3,477 GWh as a result of the abovementioned lower output of the plant caused by the scheduled maintenance outage of Malampaya gas facility in March and April 2015) and the lower generation of the San Roque Power Plant (from 290 GWh to 274 GWh) caused by an extended summer season and water conservation efforts in line with upper and lower rule curve restrictions imposed by the NIA.

Cost of coal and other fuel oil decreased by 5% from ₱6,580 million in the six months ended June 30, 2014 to ₱6,224 million in the six months ended June 30, 2015, primarily due to lower average coal prices per metric ton of the Sual Power Plant. This was partially offset by the increased coal consumption in the six months ended June 30, 2015 due to higher net generation.

Power purchased from external sources increased by 38% from ₱2,494 million in the six months ended June 30, 2014 to ₱3,445 million in the six months ended June 30, 2015. This increase mainly represents the higher power purchased from other generators due to lower net generation as a result of outages and WESM trading-related charges.

Depreciation increased by 8% from ₱2,986 million in the six months ended June 30, 2014 to ₱3,232 million in the six months ended June 30, 2015, primarily due to the recognition of additional depreciation of Units 3 and 4 of the Limay Cogeneration Plant which were completed in August 2014.

Operating Expenses

Operating expenses increased by 134% from ₱883 million in the six months ended June 30, 2014 to ₱2,070 million in the six months ended June 30, 2015. The principal factors contributing to this were: (i) the support fee in the amount of ₱348 million paid by SMC Global Power to its business partner, K-Water, in a joint venture relating to the acquisition of the AHEPP, (ii) an increase in management fees of ₱274 million, (iii) higher business taxes relating mainly to real property taxes of the Limay Cogeneration Plant and local business taxes of the Sual, Ilijan and San Roque Power Plants of ₱207 million, (iv) an increase in rental charges of ₱158 million, and (v) additional provision for impairment losses on receivables of ₱54 million.

Other Income (Charges)

Equity in net losses of an associate and joint venture increased from ₱11 million in the six months ended June 30, 2014 to ₱94 million in the six months ended June 30, 2015, primarily because of the recognition of equity share in the loss from operations of PVEI's 60% interest in AHC of ₱92 million and SPGC's 35% interest in OEDC amounting to ₱2 million. Foreign exchange differential declined from ₱1,982 million profit in the six months ended June 30, 2014 to ₱1,273 million loss in the six months ended June 30, 2015, primarily because of the depreciation of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
June 30, 2015	45.090
December 31, 2014	44.720
June 30, 2014	43.650
December 31, 2013	44.395

Income Tax Expense

Net income tax expense increased from ₱1,717 million tax expense in the six months ended June 30, 2014 to ₱2,041 million tax expense in the six months ended June 30, 2015, because of the expiration of the income tax holiday of the IPPA Power Plants in July 31, 2014.

Net Income

As a result of the abovementioned reasons, net income decreased from ₱8,944 million in the six months ended June 30, 2014 to ₱3,943 million in the six months ended June 30, 2015. Unrealized foreign exchange differential declined from ₱1,920 million gain in the six months ended June 30, 2014 to ₱1,257 million loss in the six months ended June 30, 2015, primarily because of the aforesaid depreciation of the Philippine peso against the US dollar.

Year Ended December 31, 2016 compared to Year Ended December 31, 2015

Revenues

The Group registered consolidated offtake volume of 17,346 gigawatt hours (GWh) for the full year, 5% higher than 16,558 GWh in 2015 with Sual and Ilijan Power Plants posting higher bilateral volumes. Both power plants also experienced lower outages and maintenance shutdown during the year compared to 2015 thereby improving their net generation for 2016. As a result, consolidated net revenues increased to ₱77,972 million, 1% higher than the previous year. Increase was moderated by lower average realization prices for both bilateral and WESM sales.

Cost of Power Sold

Cost of power sold declined by 8% to ₱45,002 million in 2016 due mainly to the following factors:

Energy fees decreased by 12% from ₱23,224 million in 2015 to ₱20,478 million in 2016 due to lower natural gas prices charged for the fuel of the Ilijan Power Plant.

Cost of coal and other fuel oil decreased by 3% to ₱10,047 million in 2016, primarily due to the decline in the average coal prices for the Sual and Limay Cogeneration Plants.

Operating Expenses

Operating expenses increased by 27% to ₱6,240 million in 2016 compared to 2015 on account of the additional provision for probable losses amounting to ₱740 million recognized on the past due trade receivables and contributions to registered donee institutions for programs on education, environment and other disaster-related projects amounting to ₱650 million.

Operating Income

As a result, consolidated income from operations reached ₱26,730 million, 13% higher than 2015.

Other Income (Charges)

Interest income declined by 52% to ₱201 million on account of lower average cash balance due to higher capital expenditures for the Group's power plant projects and recognition of interest income on past due non-trade receivables in 2015 amounting to ₱108 million versus nil in 2016.

The gain on sale of property, plant and equipment in 2016 reflects the gain recognized on the sale of SPI's Limay Cogeneration Plant to Petron Corporation in December 2016.

Equity in net losses amounting to ₱295 million primarily represents the share of SMC Global Power in the net loss for 2016 of AHC.

Net foreign exchange loss of ₱8,075 million recognized in 2016 was 6% higher than the previous year's ₱7,583 million due to the higher depreciation of the Philippine peso against the US dollar experienced in 2016 compared to that in 2015.

Income Tax Expense

Income tax expense increased by 25% to ₱3,366 million in 2016 resulting from the higher operating income of the Group and the deferred income tax expense recognized on the temporary differences between the actual monthly payments to PSALM of the IPPA Power Plants over the finance lease liability-related expenses.

Net Income

In view of the improvement in consolidated operating income as discussed above, consolidated net income for 2016 increased by 127%, from ₱1,829 million in 2015 to ₱4,151 million in 2016. This was partly dampened by the unrealized foreign exchange losses amounting to ₱7,447 million recognized in 2016.

Year Ended December 31, 2015 compared to Year Ended December 31, 2014

Revenues

Sales of power decreased by 8% from ₱84,294 million in 2014 to ₱77,507 million in 2015 reflecting a drop in the consolidated offtake volume by 3% from 17,001 GWh in 2014 to 16,558 GWh in 2015. Due mainly to the significant decline in the sales quantity of the Ilijan Power Plant caused by the scheduled maintenance outage of Malampaya gas facility from March to April 2015, the annual outage of Block 2 of the Ilijan Power Plant and a series of natural gas supply restrictions. In addition, there were 90-days of extended major maintenance outage of the Unit 2 of Sual Power Plant coupled with lower prices in the spot market.

Cost of Power Sold

Energy fees decreased by 25% from ₱30,776 million in 2014 to ₱23,224 million in 2015 due primarily to the aforementioned significant reduction in net generation of the Ilijan Power Plant and lower natural gas prices.

The cost of coal and other fuel oil decreased by 13% from ₱11,945 million in 2014 to ₱10,377 million in 2015 because of lower coal prices of the Sual and Limay Cogeneration Power Plants in addition to the decrease in coal consumption in 2015 due to lower net generation.

Power purchased from external sources increased by 38%, from ₱6,045 million in 2014 to ₱8,331 million in 2015. The increase in power purchased from other generators was made to compensate for lower net generation during the year.

Depreciation increased by 5%, from ₱6,144 million in 2014 to ₱6,466 million in 2015 with the recognition of additional depreciation for Units 3 and 4 of the Limay Cogeneration Plant which were completed in August 2014.

Operating Expenses

Operating expenses increased by 68% from ₱2,912 million in 2014 to ₱4,904 million in 2015 on account of the following reasons: (i) support fee for ₱629 million accrued and paid by SMC Global Power (through PVEI) to its business partner, K-Water, (ii) increase in management fees of ₱740 million, (iii) higher business taxes relating mainly to real property taxes of the Limay Cogeneration Plant and local business taxes of the Sual, Ilijan and San Roque Power Plants of ₱540 million and (iv) additional corporate social responsibility projects of ₱116 million.

Operating Income

As a result, consolidated income from operations, registered at ₱23,703 million in 2015, was behind by 8% from previous year's ₱25,896 million.

Other Income (Charges)

Equity in net losses increased from ₱22 million in 2014 to ₱528 million in 2015, primarily because of the recognition by SMC Global Power of its share in the loss of AHC.

Foreign exchange losses increased from ₱814 million in 2014 to ₱7,583 million in 2015, primarily because of the significant depreciation of the Philippine peso against the US dollar in 2015.

Income Tax Expense

Income tax expense barely moved at ₱2,693 million in 2014 to ₱2,703 million in 2015 due to the net effect of the expiration of the income tax holiday of the IPPA Power Plants in July 31, 2014 and the drop in the Group's consolidated operating income.

Net Income

As a result of the abovementioned reasons, net income decreased from ₱10,629 million in 2014 to ₱1,829 million in 2015. Unrealized foreign exchange losses increased from ₱1,585 million in 2014 to ₱7,505 million in 2015, primarily because of the aforesaid movement of the Philippine peso against the US dollar.

Financial Position (Material Changes Per Line of Account)

June 30, 2017 compared to December 31, 2016

The Group's consolidated total assets as of June 30, 2017 amounted to ₱360,632 million, higher by ₱26,683 million than December 31, 2016. The net movement is accounted for as follows:

a. The increase in cash and cash equivalents by ₱24,986 million was mainly due to the proceeds from the twelve-year term loan availed by SCPC on June 28, 2017, amounting to ₱42,000 million, which was partly used to pay the US$360 million bridge loan availed in May 2017.

b. Inventories decreased by ₱546 million due to lower coal ending inventory for Sual and Limay Greenfield Power Plants.

c. Decrease in prepaid expenses and other current assets by ₱2,048 million is due to the application of LPPC's input VAT against the output VAT recognized on the sale of its 300MW power plant project to SCPC.

d. Increase in property, plant and equipment by ₱2,458 million is attributed to the net effect of additional costs incurred for the construction of the greenfield power plants and additional depreciation recognized by the IPPAs for the period.

e. Increase in other noncurrent assets by ₱2,320 million is mainly due to the input VAT recognized by SCPC on its acquisition of the 300MW power plant project from LPPC.

The Group's consolidated total liabilities increased by ₱25,548 million, from ₱279,279 million as of December 31, 2016 to ₱304,827 million as of June 30, 2017. The major items accounting for the net movement are as follows:

a. SMC Global Power availed of a US$200 million (₱10,040 million) short-term loan with a local bank.

b. Accounts payable and accrued expenses increased by ₱218 million due to higher energy fees of SPPC and higher distribution wheeling service charges following the increase in RES customers of SMELC.

c. The increase in income tax payable by ₱143 million mainly pertains to SMEC's additional income tax due for the second quarter of 2017.

d. Long-term debt increased due to the net effect of the following: (i) availment of ₱42,000 million long-term debt by SCPC in June 2017, which was partly used to pay its US$360 million bridge loan, (ii) revaluation of the outstanding US$400 million loan of SMC Global Power at the foreign exchange closing rate of P50.47 as of June 30, 2017, and (iii) payment of the US$200 million loan, out of the US$700 million long-term debt of SMC Global Power.

e. Deferred tax liabilities increased by ₱704 million mainly due to the temporary difference arising from the actual monthly fixed payments to PSALM over the finance lease liability-related expenses for the period of SPPC and SPDC.

Equity

The increase/decrease in equity is due to:

(in Millions)	**June 30 2017**	December 31 2016
Income during the period	**₱2,655**	₱4,151
Distributions paid to undated subordinated capital security (USCS) holders	**(1,520)**	(2,905)
Cash dividends declared	**-**	(3,000)
Equity reserve for retirement plan	**-**	(11)
	₱1,135	(₱1,765)

December 31, 2016 compared to December 31, 2015

The Group's consolidated total assets as of December 31, 2016 stood at ₱333,949 million, ₱2,739 million higher than December 31, 2015. The net movement is accounted for as follows:

a. Cash and cash equivalents decreased by ₱750 million due to the net effect of the following transactions: (i) payments to PSALM for the monthly fixed fees of the IPPAs, (ii) payments to contractors/suppliers for the construction of the greenfield power plants, (iii) additional equity infused to AHC and MPGC, (iv) cash dividends and distribution paid to common shareholders and USCS holders, respectively, (v) proceeds of the US$359 million loan availed by SCPC from its US$400 million, 7-year term loan, and (vi) proceeds from the issuance of ₱15,000 million Bonds.

b. Increase in trade and other receivables by ₱3,869 million primarily represents the receivable recognized by SPI for the unpaid balance on the sale of the Limay Cogeneration Plant that is collectible in July 2017.

c. Inventories increased by ₱1,009 million due to additional coal inventory maintained for the testing and commissioning of 2 units of the greenfield power plants during the year. Moreover, coal prices for the Sual Power Plant were on an upward trend in the last quarter of 2016.

d. Increase in prepaid expenses and other current assets by ₱2,614 million is attributable to: (i) higher input VAT on purchases of goods and services for the construction of the greenfield power plants and (ii) the creditable withholding tax recognized on the sale of the Limay Cogeneration Plant.

e. Investments and advances increased by ₱5,633 million primarily on account of the additional investments made during the year by SMC Global Power and PVEI in MPGC and in AHC, respectively.

   On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco, and Zygnet Prime Holdings, Inc. (Zygnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, SMC Global Power now holds 49% of the outstanding capital stock of MPGC while MGen and Zygnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of the SMC Global Power prior to the subscription of MGen and Zygnet. Following the change in interest of ownership from 100% to 49% in MPGC, SMC Global Power now shares with MGen the control of MPGC and accounts for the investment using the equity method.

f. Net decrease in property, plant and equipment by ₱8,965 million resulted from the sale of Limay Cogeneration Plant and the additional depreciation recognized in 2016 which were partially offset by the additional costs incurred for the construction of the greenfield power plants.

g. Other noncurrent assets is lower by ₱1,227 million compared to last year's balance due to SPI's settlement of its long-term debt using in part the funds from its trust accounts (recorded under "Restricted cash" account) and the application of SPI's noncurrent input VAT to the output VAT recognized on the sale of its power plant.

The Group's consolidated total liabilities increased by ₱4,504 million, from ₱274,775 million as of December 31, 2015 to ₱279,279 million as of December 31, 2016. The net increase is accounted for as follows:

a. Accounts payable and accrued expenses increased by ₱4,888 primarily due to the additional payable to contractors/suppliers recognized in relation to construction of the greenfield power plants.

b. Increase in long-term debt by ₱7,716 million is due to the net effect of the following: (i) US$359 million drawn by SCPC from its US$400 million, 7-year term loan, to finance the construction of the Limay Greenfield Power Plant (Phase I), (ii) ₱15,000 million bonds issued and listed in July 2016 – the proceeds of which were used to refinance the US$300 million short-term loan availed as bridge loan facility for the redemption of the US$300 million bonds which matured in January 2016, and (iii) SPI's pre-settlement of the remaining balance of its ₱13,800 million long-term debt.

c. Deferred tax liabilities increased by ₱902 million mainly due to the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2016.

d. Increase in noncurrent liabilities by ₱73 million primarily relates to the increase in retirement liability and higher bill deposits from new customers.

Equity

The increase/decrease in equity is due to:

(in Millions)	**December 31**	
	2016	2015
Income during the period	**₱4,151**	₱1,829
Issuance of undated subordinated capital securities	**-**	13,823
Equity reserve for retirement plan	**(11)**	(16)
Distributions to undated subordinated capital securities	**(2,905)**	(1,450)
Cash dividends	**(3,000)**	(4,500)
	(₱1,765)	₱9,686

December 31, 2015 compared to December 31, 2014

The Group's consolidated total assets as of December 31, 2015 amounted to ₱331,210 million, ₱17,461 million higher than December 31, 2014. The net movement is accounted for as follows:

a. Cash and cash equivalents declined by ₱16,063 million due to payments made to: (i) contractors/suppliers for billed shipments/deliveries and progress billings relating to the construction of the greenfield power plants, (ii) PSALM for the monthly fixed fees, and (iii) cash dividends to common shareholders and distributions to USCS holders. These payments far exceeded the net proceeds of the additional US$200 million loan drawn and the US$300 million USCS issued by SMC Global Power in 2015.

b. Inventories declined by ₱102 million primarily due to lower coal prices for the Sual and Limay Cogeneration Plants and lower coal inventory level maintained for the Sual Power Plant due to the extended major maintenance outage of its Unit 2 in December 2015.

c. Increase in prepaid expenses and other current assets by ₱5,932 million is attributed to: (i) additional input VAT on purchases of goods/services relating to the construction of the power plants, (ii) prepaid rent of Limay plant, and (iii) prepayment of local business taxes.

d. Increase in property, plant and equipment by ₱27,320 million resulted from the ongoing construction of the Davao and Limay Greenfield Power Plants and the construction of petcoke facility and limestone crusher for the Limay Co-Gen Power Plant.

The Group's consolidated total liabilities increased by ₱7,775 million, to ₱274,775 million as of December 31, 2015 from ₱267,000 million as of December 31, 2014. The net increase is accounted for as follows:

a. Long-term debt increased by ₱9,895 million on account of the final drawdown of US$200 million from the US$700 million, 5-year term loan, by SMC Global Power for the financing of the construction of greenfield power plants and for general corporate purposes.

b. Income tax payable decreased by ₱52 million due to lower operating income posted in 2015 brought by lower bilateral volume and lower average realization prices.

c. Deferred tax liabilities increased by ₱840 million mainly due to the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2015.

d. Other noncurrent liabilities decreased by ₱537 million because of SMEC and SPDC's settlement of its monthly dues to WESM and the transfer of the balance to current liabilities as of December 2015. The monthly dues relate to the 24-month special payment arrangement (from June 2014 to May 2016) agreed with PEMC, resulting from the adjustment of the November and December 2013 Luzon WESM prices as ordered by the ERC.

Equity

The increase/decrease in equity is due to:

(in Millions)	**December 31**	
	2015	2014
Income during the period	**₱1,829**	₱10,629
Issuance of undated subordinated capital securities	**13,823**	13,110
Equity reserve for retirement plan	**(16)**	-
Distributions to undated subordinated capital securities	**(1,450)**	(723)
Cash dividends	**(4,500)**	(10,000)
	₱9,686	₱13,016

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Net cash flows provided by operating activities	32,855.8	25,251.1	31,081.6	14,029.9	15,168.7
Net cash flows used in investing activities	(6,432.7)	(34,751.1)	(7,244.9)	(9,274.7)	(7,618.8)
Net cash flows provided by (used in) financing activities .	(16,430.4)	(6,955.4)	(24,608.3)	(4,054.4)	17,326.7
Effect of exchange rate changes on cash and cash equivalents.	(813.6)	392.5	21.6	63.1	109.4
Net increase (decrease) in cash and cash equivalents. .	9,179.1	(16,062.9)	(750.0)	763.9	24,986.0
Cash and cash equivalents at beginning of period	29,125.2	38,304.3	22,241.4	22,241.4	21,491.4
Cash and cash equivalents at end of period	38,304.3	22,241.4	21,491.4	23,005.3	46,477.4

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

Net cash flows used in investing activities included the following:

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Proceeds from sale of property, plant and equipment.	-	-	13,820.4	-	-
Proceeds from sale of investment.	16,229.0	-	-	-	-
Additions to other noncurrent assets.	-	(253.8)	-	(628.1)	(2,320.3)
Additions to deferred exploration and development costs.	(145.8)	(17.8)	(3.8)	(1.9)	(2.3)
Additions to intangible assets. .	(593.7)	(117.7)	(272.0)	(150.8)	(64.9)
Return of (additions to) investments and advances. . .	(4,622.8)	(529.1)	(5,927.3)	960.1	(225.2)
Additions to property, plant and equipment.	(17,299.4)	(33,832.7)	(14,862.2)	(9,454.0)	(5,006.1)

Net cash flows used in financing activities included the following:

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Proceeds from long-term debt. . . .	1,500.0	8,825.0	30,684.4	11,269.0	57,000.0
Proceeds from short-term borrowings.	-	-	14,364.0	14,364.0	53,543.2
Proceeds from issuance of undated subordinated capital securities . .	13,110.0	13,823.5	-	-	-
Distributions to undated subordinated capital security holders	(723.2)	(1,450.7)	(2,904.6)	(1,446.0)	(1,520.2)
Cash dividends paid	(10,000.0)	(4,500.0)	(3,000.0)	(1,500.0)	-
Payment of short-term borrowings.	-	-	(14,364.0)	-	(37,573.2)
Payment of finance lease liabilities.	(20,124.0)	(22,280.1)	(23,873.4)	(11,839.8)	(12,341.5)
Payment of long-term debt.	(193.2)	(1,373.1)	(25,514.7)	(14,901.6)	(41,781.6)

Key Performance Indicators

The following are the major financial indicators being used by the Company:

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
Leverage Ratio(1)(4)	(0.24)	4.49	2.75	4.02(5)	2.90(5)

The manner by which the Company calculates the above indicator is as follows:

Leverage Ratio(1) $\qquad \dfrac{\text{Net debt}^{(2)}}{\text{EBITDA}^{(3)}}$

(1) Ratio of Net Debt to EBITDA is computed using net debt and EBITDA, in each case excluding amounts attributable to ring-fenced subsidiaries.

(2) Net debt represents the sum of long-term debt – net of current maturities and debt issue costs and current maturities of long-term debt – net of debt issue costs less cash and cash equivalents and excluding PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries.

(3) Calculated as (a) net income (excluding items between any or all of the Company and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investment and aggregate fixed payments made to PSALM. EBITDA should not be viewed in isolation or as an alternative to financial measures calculated in accordance with PFRS.

(4) Starting June 30, 2017, the relevant financial covenants of the Company will be Net Debt to Equity Ratio of not more than 3.25x and Interest Coverage of not less than 2.25x. As of June 30, 2017, the resulting Net Debt to Equity Ratio was 3.10x and Interest Coverage Ratio of 2.72x.

(5) Ratio of net debt to EBITDA is computed using for the most recent four quarterly periods ended June 30, 2016 and 2017.

Note: For further discussion on Key Performance Indicators, please refer to Discussion of the Group's Financial Soundness Indicators in the F-pages of this Prospectus.

Liquidity and Indebtedness

For the years 2017 and 2016, the main source of liquidity of the Company was from cash from sale of power and electricity. It expects to meet its working capital requirements, capital expenditures, and dividend payments. The Company may seek other sources of funding for its future capital expenditures, which may include debt and/or equity financing, depending on its needs and market conditions.

Contractual Obligations / Liabilities

The following table summarizes the maturity analysis of the contractual obligations of the Company based on undiscounted payments as of June 30, 2017 and December 31, 2016:

June 30, 2017	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**More than 1 Year**
		(in millions of ₱)		
Loans payable	16,024.0	16,038.7	16,038.7	-
Accounts payable and accrued expenses*	31,120.0	31,200.0	31,200.0	-
Finance lease liabilities (including current portion)	163,744.0	203,104.9	25,016.8	178,088.1
Long-term debt – net (including current portion)	81,108.0	118,157.6	5,405.8	112,751.8
	291,996.0	368,501.2	77,661.3	290,839.9

December 31, 2016	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**More than 1 Year**
		(in millions of ₱)		
Accounts payable and accrued expenses*	31,095.5	31,095.5	31,095.5	-
Finance lease liabilities (including current portion)	170,089.5	213,866.9	24,689.0	189,177.9
Long-term debt – net (including current portion)	66,323.7	77,424.8	3,618.0	73,806.8
	267,508.7	322,387.2	59,402.5	262,984.7

* Excluding statutory payables

Capital Resources

The Company 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 stockholders and to maintain an optimal capital structure to reduce cost of capital.

The Company manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 debt and undated subordinated capital securities.

As of June 30, 2017, the Company has cash and cash equivalents of ₱46.5 billion, current assets of ₱86.1 billion and current liabilities of ₱70.9 billion. For the same year, long term debt including current maturities and net of debt issue costs amounted to ₱81.1 billion.

The Company is in compliance with the financial covenants as of the date of this Prospectus.

As of the same date, the Company has issued and outstanding 1,250,004,000 common shares with par value of ₱1.00 per share.

Capital Expenditures

SMC Global Power invested ₱14.9 billion, ₱33.8 billion, and ₱17.3 billion in capital expenditures during the years 2016, 2015, and 2014 respectively. Majority of these amounts were used for the construction of greenfield power plants in Malita and Limay.

Off-Balance Sheet Arrangements

SMC Global Power does not have material off-balance sheet arrangements with other entities.

Financial Risk and Capital Management Objectives and Policies

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

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

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

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

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework of the Company.

The risk management policies of the Company are established to identify and analyze the risks faced by the Company, 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 Company, 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 Board of Directors constituted the Audit Committee (now Audit and Risk Oversight Committee) to assist the Board of Directors 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 legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the Board of Directors.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Company and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit and Risk Oversight Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

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

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 Company 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 Company invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Company 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 Company's financial instruments to various standard and non-standard interest rate scenarios.

Foreign Currency Risk

The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Company. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

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

	June 30, 2017		December 31, 2016	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets	(in millions of)			
Cash and cash equivalents	US$44.1	₱2,224.2	US$108.2	₱5,381.1
Trade and other receivables	112.6	5,685.0	80.3	3,992.6
	156.7	7,909.2	188.5	9,373.7
Liabilities				
Loans payable	200.0	10,094.0	-	-
Accounts payable and accrued expenses	134.0	6,763.6	312.8	15,553.6
Finance lease liabilities	1,788.2	90,251.2	1,880.4	93,492.0
Long-term debt	200.0	10,094.0	1,059.3	52,670.3
	2,322.2	117,202.8	3,252.5	161,715.9
Net foreign currency-denominated monetary liabilities	US$2,165.6	₱109,293.6	US$3,064.0	₱152,342.2

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

Liquidity Risk

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

The Company'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 Company 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.

Credit Risk

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

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

Other Matters

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

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

There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the liquidity of the Company.

There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

There were no known events that will trigger direct or contingent financial obligation that is material to the Company, 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.

The effects of seasonality or cyclicality on the operations of the Company's business are not material.

There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

MANAGEMENT AND CERTAIN SECURITY HOLDERS

The table below sets forth each member of the Board of Directors of the Company as of the date of this Prospectus:

Name	Age	Position	Citizenship	Year Appointed
Ramon S. Ang	63	Chairman	Filipino	2010
Ferdinand K. Constantino	66	Director	Filipino	2010
Aurora T. Calderon	63	Director	Filipino	2010
Virgilio S. Jacinto	61	Director	Filipino	2010
Jack G. Arroyo, Jr.	59	Independent Director	Filipino	2011
Consuelo M. Ynares-Santiago	77	Independent Director	Filipino	2011
Josefina Guevara-Salonga	75	Independent Director	Filipino	2017

Certain information on the business and working experiences of the Directors for the last five (5) years set out below.

Ramon S. Ang is the incumbent Chairman of the Board and Chief Executive Officer of SMC Global Power since August 31, 2010, and concurrently, the President and Chief Operating Officer of the Company since April 30, 2017. He is also the Chairman of the Executive Committee of SMC Global Power since September 2, 2011. He is the President and Chief Operating Officer of SMC since March 6, 2002 and Vice Chairman since 1999. He also holds, among others, the following positions in other listed and public companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; Chairman of the Board of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange); Vice Chairman of the Board of Ginebra San Miguel, Inc., and San Miguel Pure Foods Company, Inc.; and Chairman and President of San Miguel Properties, Inc. He is also the Chairman and President of San Miguel Holdings Corp. and San Miguel Equity Investments Inc.; Chairman of the Board of Sea Refinery Corporation, San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, and Philippine Diamond Hotel & Resort, Inc. He is also the sole director and shareholder of Master Year Limited and the Chairman of Privado Holdings, Corp. He formerly held the following positions: President and Chief Operating Officer of PAL Holdings, Inc., and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman and Director of Manila Electric Company. Mr. Ang holds directorships in various domestic and international subsidiaries of SMC.

Ferdinand K. Constantino is a Director of SMC Global Power since August 31, 2010, the Vice Chairman of the Board of SMC Global Power since September 2, 2011, and was its Treasurer from August 31, 2010 to September 1, 2011. He is a member of the Executive Committee of SMC Global Power since September 2, 2011. He is also a member of the Corporate Governance Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. He is also a Director of SMC since May 31, 2010 and the Senior Vice President, Chief Finance Officer and Treasurer of SMC. He also holds, among others, the following positions in other listed and public companies: Director of Top Frontier Investment Holdings, Inc., San Miguel Brewery Inc., and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia). He is also the President of Anchor Insurance Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served SMC as Chief Finance Officer of the San Miguel Beer Division; Chief Finance Officer and Treasurer of San Miguel Brewery Inc.; Director of San Miguel Pure Foods Company, Inc.; Director of San Miguel Properties, Inc.; and Chief Finance Officer of Manila Electric Company. He holds directorships in various domestic and international subsidiaries of SMC.

Aurora T. Calderon is a Director of SMC Global Power since August 31, 2010 and a member of its Executive Committee since September 2, 2011. Ms. Calderon is also a member of the Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is also a director of SMC since June 10, 2014 and also the Senior Vice President Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. She holds the following positions in other publicly listed companies: Director and Treasurer of Top Frontier Investment Holdings, Inc. and Director of Petron Corporation. She is also a Director of Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corp., Thai San Miguel Liquor Co., San Miguel Equity Investments Inc., and Clariden Holdings, Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. Ms. Calderon holds directorships in various domestic and international subsidiaries of SMC.

Virgilio S. Jacinto is the Corporate Secretary of SMC Global Power since August 31, 2010, a Director and the Compliance Officer of SMC Global Power since September 2, 2011. He is also a member of the Corporate Governance Committee of SMC Global Power. He is also the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Ginebra San Miguel, Inc. He is a Director of Petron Corporation. He was formerly the Vice President and First Deputy General Counsel of SMC. He was a Director and Corporate Secretary of UCPB, and a Partner at Villareal Law Offices. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He holds directorships in various domestic and international subsidiaries of SMC.

Jack G. Arroyo, Jr. is an Independent Director of SMC Global Power since September 2, 2011. He is also the Chairperson of the Audit and Risk Oversight Committee, and a member of the Corporate Governance Committee and Related Party Transaction Committee of SMC Global Power. He is a medical doctor and ophthalmologist by profession and is currently affiliated with The American Eye Center, The Medical City, Eye Referral Center, and Makati Medical Center. He is also a member of the Board of Directors of the Philippine Healthcare Educators, Inc., a member of the Board of Trustees and Treasurer of Philippine Society of Cataract and Refractive Surgery, and the Vice-President for the National Capital Region of Centrist Democratic Political Educators, Inc. He is also currently the President of Casino Español de Manila.

Consuelo M. Ynares-Santiago is an Independent Director of SMC Global Power since September 2, 2011, She is also the Chairperson of the Corporate Governance Committee, and a member of the Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. She is also an Independent Director of Anchor Insurance Brokerage Corporation, Top Frontier Investment Holdings, Inc., South Luzon Tollway Corporation and Phoenix Petroleum Phil. Inc. She served as an Associate Justice of the Supreme Court of the Philippines; Associate Justice of the Court of Appeals of the Philippines; and a Regional Trial Court Judge of Makati City.

Josefina Guevara-Salonga is an Independent Director of SMC Global Power since November 7, 2017. She is also the Chairperson of the Related Party Transaction Committee and a member of the Corporate Governance Committee and Audit and Risk Oversight Committee of SMC Global Power. She is former former Associate Justice of the Court of Appeals. Previously, she was an Executive Judge of the Makati Regional Trial Court. She is currently a trustee of the Tahanan Outreach Program since 2010 and member of the following associations: San Pedro, Laguna Lawyer's Association, University of the Philippines Women Lawyer's Circle since 1966 and Philippine Women's Judges Association. She also served as a trustee of the Society for Judicial Excellence from 2007 to 2014.

Set below are the names, ages, positions, citizenship and years of appointment of the Executive Officers and senior management of the Company as of the date of this Prospectus.

Name	Age	Position	Citizenship	Year Position was Assumed
Ramon S. Ang	63	Chairman & Chief Executive Officer and President & Chief Operating Officer	Filipino	2010 & 2017
Ferdinand K. Constantino	66	Vice Chairman	Filipino	2010
Virgilio S. Jacinto	61	Corporate Secretary & Compliance Officer	Filipino	2010 & 2011
Elenita D. Go	57	General Manager and Energy Sourcing & Trading Group Head	Filipino	2011
Paul Bernard D. Causon	39	Chief Finance Officer	Filipino	2017
Ramon U. Agay	59	Assistant Vice President & Finance Manager	Filipino	2011 & 2015
Irene M. Cipriano	43	Assistant Corporate Secretary	Filipino	2010
Reynaldo S. Matillano	57	Internal Audit Manager	Filipino	2017
Lorenz R. Defensor	40	Data Protection Officer	Filipino	2017

Certain information on the business and working experiences of the Executive Officers and Senior Management for the last five (5) years set out below.

Elenita D. Go is the General Manager of SMC Global Power since December 14, 2011. She joined SMC Global Power in June 2011 as Head of its Sales and Trading Group. Previously, she was also a Director of Manila Electric Company and Head of the Corporate Procurement Unit of SMC. She is currently the General Manager of the subsidiaries of the Company and holds directorship in some subsidiaries of the Company.

Paul Bernard D. Causon is the Chief Finance Officer of SMC Global Power since March 30, 2017 and is concurrently the Chief Finance Officer and Treasurer of Angat Hydropower Corporation. He previously served as Vice President, Head of Treasury and Head of Special Projects of Philippine Airlines Inc. and Air Philippines Corporation; Chief Finance Officer and Treasurer of Liberty Telecoms Holdings, Inc. and Wi-Tribe Telecoms Inc.; Partner, Audit Banks and Other Financial Institutions of Manabat Sanagustin & Co., CPAs; and Vice President and Comptroller of China Banking Corporation.

Ramon U. Agay is the Finance Manager of SMC Global Power since September 2, 2011 and was appointed Assistant Vice President on March 25, 2015. He is also the Finance Manager of the various subsidiaries of SMC Global Power, and the Treasurer of Daguma Agro, Bonanza Energy and Sultan Energy. He had previously held finance positions in SMC and its subsidiaries.

Irene M. Cipriano is the Assistant Corporate Secretary of SMC Global Power since 2010. She is an Assistant Vice President and Associate General Counsel of SMC. She is also the Assistant Corporate Secretary of Top Frontier Investment Holdings, Inc., and the Corporate Secretary and Assistant Corporate Secretary of various subsidiaries of SMC Global Power and San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. and Philippine Airlines Inc.

Reynaldo S. Matillano is the Audit Manager of SMC Global Power since November 1, 2015 and was appointed as Internal Audit Manager on June 6, 2017. Prior thereto, Mr. Matillano was part of the audit team of San Miguel Yamamura Packaging Corporation and San Miguel Corporation. Before joining San Miguel Corporation, Mr. Matillano was the functional head of Legaspi Oil Mills, Inc. (Coconut Industry Investment Fund- Oil Mills Group) and Indophil (OLA) Oil Mills.

Lorenz R. Defensor is a legal officer of SMC Global Power since September 1, 2011 and was appointed as Data Protection Officer of the Company on June 6, 2017. Atty. Defensor was a director of PNOC-Shipping and Transport Corporation and was previously an Associate Attorney at Quasha Ancheta Peña & Nolasco Law Office.

SIGNIFICANT EMPLOYEES

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

FAMILY RELATIONSHIPS

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

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

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

EXECUTIVE COMPENSATION

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

Name	Period Ended	Salary (in millions)	Bonus (in millions)
Total compensation of the Chief Executive Officer, President and Chief Operating Officer and Senior Executive Officers[1]	December 31, 2017 (estimated)	₱64.6	₱9.7
	December 31, 2016	₱57.0	₱12.8
	December 31, 2015	₱23.5	₱9.5
	December 31, 2014	₱21.4	₱7.7
All other officers and managers as a group	December 31, 2017 (estimated)	₱46.9	₱26.9
	December 31, 2016	₱43.5	₱24.9
	December 31, 2015	₱30.3	₱23.8
	December 31, 2014	₱27.9	₱18.8

[1]The Chief Executive Officer, President and Chief Operating Officer, and Senior Executive Officers of the Company for 2014 to 2017 are Ramon S. Ang, Alan T. Ortiz (resigned effective April 30, 2017), Elenita D. Go, Alexander B.M. Simon (resigned effective March 30, 2017), and Ramon U. Agay, respectively.

Standard Arrangements

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

Other Arrangements

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

Employment Contract

There are no employment contract between the Company and a named Executive Officer. There was neither a compensatory plan nor an arrangement with respect to a named Executive Officer.

Warrants or Options Outstanding

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

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

Security Ownership of Certain Records and Beneficial Owners of more than 5% of the Voting Securities of the Company as at November 30, 2017

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% Out of Total Outstanding Shares
Common	San Miguel Corporation (Parent Company)	San Miguel Corporation (SMC)	Filipino	1,250,000,500	100%
Common	Ramon S. Ang (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Ferdinand K. Constantino (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Aurora T. Calderon (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Virgilio S. Jacinto (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
	Total			**1,250,002,500**	

Security Ownership of Directors and Management as at November 30, 2017

Title of Class	Name of Record Owner and Relationship with Issuer	Position	Name of Beneficial Owner and Relationship	Citizenship	Total No. of Shares	% of Total Outstanding Shares
Common	Ramon S. Ang	Chairman & Chief Executive officer and President & Chief Operating Officer	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Ferdinand K. Constantino	Vice Chairman	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Aurora T. Calderon	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%

Title of Class	Name of Record Owner and Relationship with Issuer	Position	Name of Beneficial Owner and Relationship	Citizenship	Total No. of Shares	% of Total Outstanding Shares
Common	Virgilio S. Jacinto	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Jack G. Arroyo, Jr.	Independent Director	Jack G. Arroyo, Jr.	Filipino	500	0.00%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	500	0.00%
Common	Josefina Guevarra-Salonga	Independent Director	Josefina Guevarra-Salonga	Filipino	500	0.00%

Security Ownership of Certain Records and Beneficial Owners of more than 5% as of the date of this Prospectus

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% Out of Total Outstanding Shares
Common	San Miguel Corporation (Parent Company)	San Miguel Corporation (SMC)	Filipino	1,250,000,500	100%
Common	Ramon S. Ang (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Ferdinand K. Constantino (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Aurora T. Calderon (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Virgilio S. Jacinto (Director)	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
	Total			**1,250,002,500**	

Security Ownership of Directors and Management as of the date of this Prospectus

Title of Class	Name of Record Owner and Relationship with Issuer	Position	Name of Beneficial Owner and Relationship	Citizenship	Total No. of Shares	% of Total Outstanding Shares
Common	Ramon S. Ang	Chairman & Chief Executive officer and President & Chief Operating Officer	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Ferdinand K. Constantino	Vice Chairman	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Aurora T. Calderon	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Virgilio S. Jacinto	Director	SMC; Nominee-director of SMC in the Board	Filipino	500	0.00%
Common	Jack G. Arroyo, Jr.	Independent Director	Jack G. Arroyo, Jr.	Filipino	500	0.00%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	500	0.00%
Common	Josefina Guevarra-Salonga	Independent Director	Josefina Guevarra-Salonga	Filipino	500	0.00%

None of the members of the Board of Directors and Management of SMC Global Power own 2.0% or more of the outstanding capital stock of SMC Global Power.

Voting Trust Holders of 5% or more

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

Changes in Control

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

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company, in the ordinary course of business, has entered into transactions with stockholders, affiliates and other related parties principally consisting of advances and reimbursement of expenses, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sale and purchase of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

Except for the transactions discussed in Related Party Transactions disclosures in the Notes to the accompanying financial statements, there were no other material related party transactions as of and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 and for the six months ended June 30, 2017 and June 30, 2016, nor are there any material transactions currently proposed between SMC Global Power and any: (i) director or executive officer, direct or indirect owner of 10% or more of the outstanding shares in SMC Global Power ; (ii) close family member of such director, executive officer or owner; (iii) associates of SMC Global Power; (iv) enterprises controlling, controlled by or under common control with SMC Global Power; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, executive officer or owner of 10% or more of the outstanding shares in SMC Global Power or any close family member of such director, executive officer, or owner.

DESCRIPTION OF DEBT

₱15 Billion Bonds

On July 11, 2016, the Company issued and listed in the PDEx fixed rate Philippine peso-denominated bonds with an aggregate principal amount of ₱15 billion. The bonds were issued at the issue price of 100% of face value in 3 series: Series A Bonds, Series B Bonds and Series C Bonds.

The term and interest rate of the bonds are as follows:

	Term	Interest Rate Per Annum
Series A Bonds	five (5) years, due 2021	4.3458%
Series B Bonds	seven (7) years, due 2023	4.7575%
Series C Bonds	ten (10) years, due 2026	5.1792%

As of the date of this Prospectus, the bonds remain outstanding.

US Dollar and Peso-denominated Loans

As of June 30, 2017, the Company has the following US dollar-denominated debts: (1) US$200 million of the US$700 million Term Facility obtained in September 2013 to mature in September 2018 with various foreign financial institutions and an interest rate based on London Interbank Offer Rate plus margin and (2) US$200 million short-term loan availed in March 2017 from BDO, subject to monthly renewal and an interest rate based on LIBOR plus margin. As of September 30, 2017, both US dollar-denominated debts have been fully paid.

As of the date of this Prospectus, the Company has the following peso-denominated debts: (1) ₱15 billion fixed-rate, seven-year term loan from BDO with an interest rate of 6.9265%, availed in April 2017, (2) aggregated ₱10 billion short-term loans obtained from BDO in September and October 2017, with an interest rate based on market lending rate, and (3) aggregated ₱10 billion short-term loans obtained from PNB in October 2017 with an interest rate based on market lending rate.

CORPORATE GOVERNANCE

Manual on Corporate Governance

Pursuant to Article 9 of the Revised Code of Corporate Governance, the Manual on Corporate Governance (the "**Manual**") of the Company was approved by the Board of Directors on August 19, 2011 and was amended on April 11, 2016. The Manual was further amended on May 5, 2017 pursuant to the new Code of Corporate Governance for Publicly Listed Companies, which requires all publicly-listed companies to submit a new Manual on Corporate Governance to the SEC on or before May 31, 2017.

Compliance and Monitoring System

The monitoring of the implementation of the evaluation system of the Company to measure and determine the adherence to and the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer. To ensure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer.

The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual and the rules and regulations of the relevant regulatory agencies and ensures adherence to corporate principles and best practices. The Compliance Officer holds the position of a Vice President or its equivalent and has direct reporting responsibilities to the Chairman of the Board of Directors. In accordance with applicable rules and regulations of the SEC, the Compliance Officer shall certify whether the Company has substantially adopted all the provisions of the Manual on Corporate Governance.

Further, the Company may organize regular seminars or programs on Corporate Governance for directors and key officers, in accordance with SEC regulations.

Pursuant to its commitment to good governance and business practice, the Company shall continue to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders.

Independent Directors

Under the implementing rules and regulations of the SRC, an independent director is defined as a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. An independent director must satisfy the qualifications and must have none of the disqualifications of an independent director set out in the SRC and its implementing rules and regulations, the Manual, the Amended Articles of Incorporation and Amended By-Laws of the Company.

Under the SRC, the Company is required to have at least two (2) independent directors in its Board of Directors. The Manual, as amended, in turn, requires at least two (2) independent directors to serve on each of the Audit and Risk Oversight Committee and Related Party Transaction Committee of the Company and three (3) independent directors on the Corporate Governance Committee.

Justice Consuelo M. Ynares-Santiago, Dr. Jack G. Arroyo, Jr. and Justice Josefina Guevarra-Salonga are the independent directors of the Company as of date.

Board Committees

On August 8, 2017, the Board of Directors of the Company approved (i) the creation of the following committees: Audit and Risk Oversight Committee, Corporate Governance Committee and Related Party Transaction Committee (the "**New Board Committees**"), and (ii) the Charter of the New Board Committees, pursuant to the Company's Manual as Amended on May 5, 2017.

A brief description of the New Board Committees is as follows:

Audit and Risk Oversight Committee

The Audit and Risk Oversight Committee of SMC Global Power shall be composed of at least three (3) directors, majority of whom should be independent directors.

The Audit and Risk Oversight Committee is responsible for assisting the Board of Directors in overseeing the senior management, in establishing and maintaining an adequate, effective and efficient internal control framework and functional and effective enterprise risk management system, and in ensuring that systems and processes are designed to provide assurance in areas, including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The incumbent members of the Audit and Risk Oversight Committee are Jack G. Arroyo, Jr., Consuelo M. Ynares-Santiago, Josefina Guevarra-Salonga, Ferdinand K. Constantino, and Aurora T. Calderon.

Corporate Governance Committee

The Corporate Governance Committee of SMC Global Power shall have at least three (3) independent directors as members.

The Corporate Governance Committee is responsible for overseeing the periodic performance evaluation of the Board and its committees as well as executive management, conducting an annual self-evaluation of its performance, determining the nomination and election process for the Company's directors, defining the general profile of Board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board, and designating the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully. It prescreens and shortlists the nominees to the Board in accordance with the qualifications and disqualifications for directors set out in the Manual.

The incumbent members of the Corporate Governance Committee are Consuelo M. Ynares-Santiago, Jack G. Arroyo, Jr. Josefina Guevarra-Salonga, Ferdinand K. Constantino, and Virgilio S. Jacinto.

Related Party Transaction Committee

The Related Party Transaction Committee of SMC Global Power shall be composed of at least three (3) directors, two (2) of whom shall be independent directors.

The Related Party Transaction Committee is responsible for evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured, evaluating all material related party transactions to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and in determining any potential reputational risk issues that may arise as a result of or in connection with the transactions.

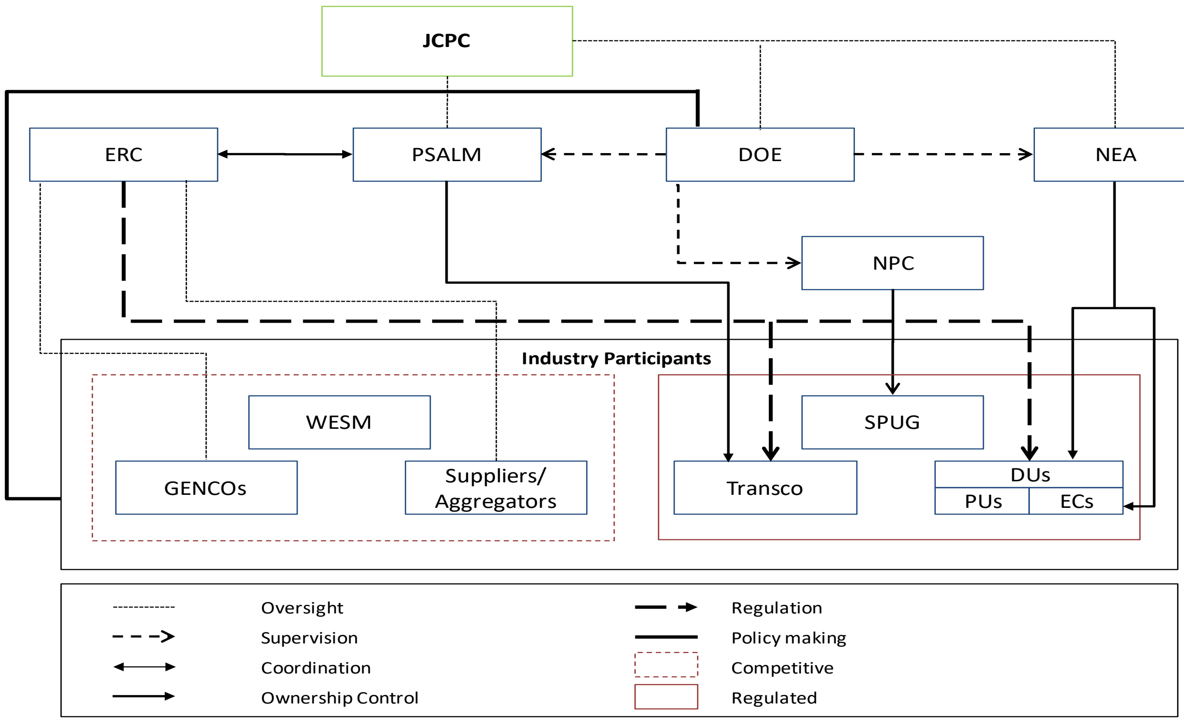
The incumbent members of the Related Party Transaction Committee are Josefina Guevarra-Salonga, Consuelo M. Ynares-Santiago, Jack G. Arroyo, Jr. Ferdinand K. Constantino, and Aurora T. Calderon.

REGULATORY FRAMEWORK

ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

Republic Act No. 9136 or the Electric Power Industry Reform Act (“**EPIRA**”) established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



Note:
DUs: Distribution Utilities
ECs: Electric Cooperatives
GENCOs: Any entity authorized by the ERC to operate electricity generation facilities
JCPC: Joint Congressional Power Commission
PUs: Production Utilities

Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and to broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to ensure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;

- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the Implementing Rules and Regulations (the "**IRR**") of the EPIRA on February 27, 2002.

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, namely the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission and distribution sectors will remain regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

Under the EPIRA, power generation per se is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. "Open Access" is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while "Retail Competition" is defined as the provision of electricity to Contestable Customers (*i.e.,* electricity end-users with monthly average peak demand of at least 1 MW for the preceding 12 months to the initial implementation of Open Access, which shall be reduced to 750 KW two years thereafter) by persons licensed by the ERC to engage in the business of supply to electricity end-user through Open Access.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the "**Captive Market**"), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be Contestable Customers.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the said Act.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

As of June 30, 2017, PSALM has privatized 22 operating/generating power facilities and decommissioned three (3) generating power facilities, with a total combined capacity of 4,568.43 MW. Moreover, additional seven (7) power plants with total combined capacity of 3,607.42 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 95.52 Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock.

The Transmission Sector

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code ("**Grid Code**"). TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. As the transmission of electric power is a regulated common carrier business, TransCo's transmission wheeling charges are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of, a concession over the transmission assets while the sub-transmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of US$3.95 billion. On January 15, 2009, NGCP was officially granted the authority to operate the sole transmission system of the country pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine Grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or the PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;

- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;

- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and

other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local Government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a certificate of public convenience and necessity from the ERC to operate as public utilities.

They are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code ("**Distribution Code**") (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. The retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is also subject to ERC approval. In addition, as a result of the policy of the Government in promoting free competition and Open Access, distribution utilities are now required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connection to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with Contestable Customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand outlook from 2012 to 2030 in Philippines based on the DOE Power Development Plan, 2012-2030:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity peak (MW)	Peak (MW)	Actual peak (MW)	Required reserve margin (MW)
Luzon	11,739	10,824	8,944	7,889	1,055	1,610
Visayas	2,402	2,037	1,731	1,522	312	261
Mindanao	2,022	1,616	1,311	1,257(1)	50	250
Philippines	16,162	14,477	11,986			

(1) Curtailed demand for Mindanao Grid.

Role of the ERC

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to review all power purchase contracts executed between NPC and IPPs, including the distribution utilities;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;

- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA;
- recommendation of necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA; and
- determination of inherent weaknesses in the EPIRA and recommend necessary remedial legislation or executive measures.

Competitive Market Devices

WESM

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of June 25, 2017, there were 1,206 entities registered as WESM.

WESM in Mindanao

In anticipation of the increase of supply condition in Mindanao, the DOE, through DOE Circular DC2017-05-0009, has declared the launch of the WESM. Similar to the operations in Luzon and Visayas, WESM's primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program has started last June 26, 2017 where its objective is to familiarize all Mindanao participants in the implementation of the WESM.

RCOA

The EPIRA likewise provides for a system of Open Access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. The full commercial operation of RCOA in Luzon and Visayas commenced on June 26, 2013 with a total of 275 registered participants. Conditions for the commencement of such Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be Contestable Customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed Contestable Customers to stay with their current distribution utility until December 25, 2013, or until such time that they were able to find a RES. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated Contestable Customers to secure their RSCs by June 25, 2016, including Contestable Customers with an average demand of 750 KW to 999 KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the Contestable Markets (i.e., end-users with an average monthly peak demand of 750 KW as certified by the ERC) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

The EPIRA mandates that distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for the RCOA.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of the Performance-Based Regulation ("PBR")

The ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering PBR, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies' customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues determined through a set regulatory asset base, the efficiency of the distribution utility and the latter's capital, all of which are reviewed and approved by the ERC and used by the ERC to determine the efficiency factor of a distribution utility. For each year during the regulatory period, the distribution charge of a distribution utility is adjusted upwards or downwards taking into consideration the efficiency factor of the utility set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the IRR, then President Arroyo issued Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued guidelines setting the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service capability ratio of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

With the introduction of RCOA, the rates charged by a generation company are no longer regulated by the ERC, except rates for Captive Markets (as determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local Government authorities, relating to, among others, site acquisition, construction and operation, including environmental-related licenses and permits.

Registration under the BOI

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI. Such incentives include: (i) income tax holiday, (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) importation of consigned equipment.

Philippine Competition Act

On July 21, 2015, the President of the Philippines signed into law Republic Act No. 10667 or the Philippine Competition Act, which became effective on August 8, 2015. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anticompetitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. Although the Philippine Competition Act is silent on its applicability specifically to the electric power industry, Section 55(c) of the Philippine Competition Act provides that insofar as Section 43(u) of the EPIRA is inconsistent with provisions of the Philippine Competition Act, it shall be repealed. In view of this, the Philippine Competition Commission now has the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed by the ERC in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector.

On May 31, 2016, the PCC promulgated rules and regulations in order to effectively carry out the provisions of the Philippine Competition Act. Under the Rules, parties to a merger or acquisition are required to provide notification to the PCC when the following thresholds are met: (i) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent company of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent company controls, directly or indirectly, exceeds ₱1,000,000,000.00; and (ii) the value of the transaction exceeds ₱1,000,000,000.00.

Local Government Code

Republic Act No. 7160, otherwise known as the Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power is exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Labor and Employment

The Department of Labor and Employment ("**DOLE**") is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards, as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

Social Security System, PhilHealth and the Pag-IBIG Fund

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under the Social Security Act of 1997 to ensure coverage of employees following procedures set out by the law and the Social Security System ("**SSS**"). Under the said law, an employer must deduct from its employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Program administered by the Philippine Health Insurance Corporation a government corporation attached to the DOH tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of the National Health Insurance Act of 1995.

Under the Home Development Mutual Fund Law of 2009, all employees who are covered by the Social Security Act of 1997 must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund.

Environmental Matters

Presidential Decree No. 1586 established the "Environmental Impact Statement System," which provides a regulatory framework for any project or undertaking that is either (a) classified as environmentally critical or (b) is situated in an environmentally critical area. The Department of Environment and Natural Resources ("**DENR**"), through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area and processes all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement ("**EIS**") which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of P.D. No. 1586 in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan ("**EMP**") in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund ("**EMF**") when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent's compliance with ECC conditions, EMP and applicable laws, rules and regulations.

The operation of power plants are considered environmentally critical projects for which an EIS and an ECC are mandatory.

The Clean Water Act

The Clean Water Act and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

The Clean Air Act

Pursuant to the Clean Air Act and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain an Authority to Construct or a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permits seek to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

The Renewable Energy Act

The Renewable Energy Act of 2008 (Republic Act No. 9513) ("**RE Act**") aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the said law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

The RE Act establishes the framework for the accelerated development and advancement of renewable energy resources as well as the development of a strategic program to increase its utilization. The RE Act defines renewable energy resources as energy resources that do not have an upper limit on the total quantity to be used. Such resources are renewable on a regular basis, and their renewal rate is relatively rapid to consider availability over an indefinite period of time. These include, among others, biomass, solar, wind, geothermal, ocean energy, and hydropower conforming to internationally accepted norms and standards on dams, and other renewable energy technologies.

The DOE is the lead agency mandated to implement the provisions of the law.

Other Environmental Laws

Other regulatory environmental laws and regulations applicable to the businesses of SMC Global Power include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 (Republic Act No. 6969), which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include byproducts, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.

The Code on Sanitation of the Philippines (the "**Sanitation Code**") (Presidential Decree No. 856), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, which is implemented by the Philippine Department of Health, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis.

Foreign Investment Act of 1991 ("FIA")

The FIA liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Tenth Regular Foreign Investment Negative List (the "**Negative List**"). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. Likewise, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term Philippine National is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; a corporation organized abroad and registered to do business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the *Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities.* it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, the Supreme Court affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

More recently, in the case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the "**Narra Nickel Case**"), the Supreme Court affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders' own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (1) if the corporation's Filipino equity falls below sixty percent (60%), such corporation is deemed foreign-owned, applying the Control Test; (2) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (3) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

PHILIPPINE TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.

The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "domestic corporation" is a corporation created or organized in the Philippines or under its laws. A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "nonresident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

Taxation of Interest

The National Internal Revenue Code of 1997, as amended, provides that interest-bearing obligations of Philippine residents, corporate or otherwise, are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine residents and resident aliens from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is subject to a 20% final withholding tax. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident income recipient. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 10% or 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment or perform in the Philippines professional services from a fixed base and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment or fixed base.

Tax-Exempt Status

Bondholders who are exempt from or are not subject to final withholding tax on interest income may avail of such exemption by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the Issue Manager, Underwriter and Bookrunner (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) a current and valid BIR certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR addressed to the Applicant confirming the exemption; (ii) a duly notarized undertaking, in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and (iii) such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, which shall include a Certificate of Residence for Tax Treaty Relief (CORTT) Form as required under BIR Revenue Memorandum Order No. 8-2017; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Electronic Registry of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction provided the same are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Issuer, upon submission of Account Opening documents to the Registry: (i) a written notification of the sale or purchase, including the tax status of the selling or buying party, and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed from the Issuer on account of such transfer.

Value-Added Tax

Gross receipts arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities and lending investors shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less cost of the securities sold.

"Dealer in securities" means a merchant of stock or securities, whether an individual partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers, that is, one who as a merchant buys securities and sells them to customers with a view to the gains and profits that may be derived therefrom.

"Lending investor" includes all persons other than banks, non-bank financial intermediaries, finance companies and other financial intermediaries not performing quasi-banking functions who make a practice of lending money for themselves or others at interest.

Gross Receipts Tax

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

- Maturity period is five years or less 5%
- Maturity period is more than five years 1%

In case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the original issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200.00, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

The Bondholder will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such basis of the Bondholders in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Bondholder has held the Bonds as capital assets.

The term "capital assets" means property held by the taxpayer (whether or not connected with his trade or business), but does not include stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business, of a character which is subject to the allowance for depreciation, or real property used in trade or business of the taxpayer.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months. If the capital asset has been held for not more than 12 months, the individual taxpayer must recognize 100% of the capital gain or loss upon the sale or exchange of a capital asset. An individual taxpayer who sustains in any taxable year a net capital loss, such loss (in an amount not in excess of the net income for such year) shall be treated in the succeeding taxable year as a loss from the sale or exchange of a capital asset held for not more than 12 months. The Tax Code further provides that losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty, subject to the filing of a tax treaty relief application with the Philippine Bureau of Internal Revenue, or if they are sold outside the Philippines.

Estate and Donor's Tax

The transfer of the Bonds by succession, whether the deceased is a Philippine resident or non-Philippine resident, shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000.00. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000,00 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not, in reference to the donor, a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship. The tax shall apply whether the transfer is in trust or otherwise, or whether the gift is direct or indirect.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

Unless a certification from the BIR that the estate or donor's taxes have been paid is shown, there shall be no transfers to any new owner in the books of the Bond Issuer of any bond by way of succession or donation.

INDEPENDENT AUDITORS AND COUNSEL

LEGAL MATTERS

All legal issues relating to the issuance of the Offer Bonds which are subject of this Offer shall be passed upon by SyCip Salazar Hernandez & Gatmaitan for the Joint Issue Managers and the Joint Lead Underwriters and Bookrunners, and Picazo Buyco Tan Fider & Santos for the Company. SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos have no direct or indirect interest in SMC Global Power. SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos may, from time to time be engaged by SMC Global Power to advise in the transactions of the Company and perform legal services on the same basis that SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos provide such services to its other clients.

INDEPENDENT AUDITORS

R.G. Manabat & Co., the independent auditors, audited the financial statements of the Company as of and for the years ended December 31, 2016, 2015 and 2014, which are all included in the Prospectus. R.G. Manabat & Co. has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

The named independent auditor has not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Company.

The aggregate fees billed by R.G. Manabat & Co. amounted to ₱6.2 million, ₱3.6 million, ₱ 4.2 million and in 2016, 2015 and 2014, respectively. Said fees include compensation for audit services and other related services such as review and agreed-upon procedures. There were no fees paid for accounting, compliance, advisory, planning and any other form of tax. There were no other fees paid to the independent auditors other than for the above-described services.

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

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

FINANCIAL INFORMATION

The following pages set forth the audited financial statements of SMC Global Power as at December 31, 2016, 2015 and 2014 and for the six months ended June 30, 2017 and 2016.

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

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
June 30, 2017 and December 31, 2016

REPORT OF INDEPENDENT AUDITORS ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of financial position as at June 30, 2017, and condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim statements of cash flows for the six-month periods ended June 30, 2017 and 2016, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements is not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting*.

Other Matter

We audited the consolidated financial statements of the Group as at and for the year ended December 31, 2016 and expressed an unqualified opinion thereon dated March 13, 2017.

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904948MD
Issued January 3, 2017 at Makati City

September 14, 2017
Makati City, Metro Manila

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND DECEMBER 31, 2016
(In Thousands)

	Note	**2017 (Unaudited)**	2016 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*19, 20*	**P46,477,365**	P21,491,385
Trade and other receivables - net	*7, 13, 19, 20*	**22,061,674**	22,342,846
Inventories	*13*	**1,726,012**	2,272,289
Prepaid expenses and other current assets	*8*	**15,634,945**	17,683,020
		85,899,996	63,789,540
Assets held for sale		**184,324**	184,324
Total Current Assets		**86,084,320**	63,973,864
Noncurrent Assets			
Investments and advances - net		**16,425,327**	16,245,454
Property, plant and equipment - net	*6, 9*	**248,945,691**	246,488,027
Deferred exploration and development costs		**695,649**	693,379
Intangible assets and goodwill - net	*6*	**2,584,561**	2,572,119
Deferred tax assets		**2,555,714**	2,955,570
Other noncurrent assets - net	*13, 19, 20*	**3,341,126**	1,020,771
Total Noncurrent Assets		**274,548,068**	269,975,320
		P360,632,388	P333,949,184
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*10, 19, 20*	**P16,024,000**	P -
Accounts payable and accrued expenses	*11, 12, 13, 19, 20*	**37,947,365**	37,729,415
Finance lease liabilities - current portion	*6, 19, 20*	**16,138,104**	16,344,246
Income tax payable		**270,510**	127,198
Current maturities of long-term debt - net of debt issue costs	*12, 13, 19, 20*	**551,909**	1,040,690
Total Current Liabilities		**70,931,888**	55,241,549
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*12, 13, 19, 20*	**80,556,312**	65,283,036
Deferred tax liabilities		**5,489,381**	4,785,217
Finance lease liabilities - net of current portion	*6, 19, 20*	**147,605,910**	153,745,290
Other noncurrent liabilities		**243,212**	223,468
Total Noncurrent Liabilities		**233,894,815**	224,037,011
Total Liabilities		**304,826,703**	279,278,560

Forward

	Note	2017 (Unaudited)	2016 (Audited)
Equity			
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Undated subordinated capital securities	*14*	**26,933,565**	26,933,565
Equity reserves		**785,279**	785,279
Reserve for retirement plan		**(26,371)**	(26,371)
Retained earnings		**24,560,708**	23,425,647
Total Equity		**55,805,685**	54,670,624
		P360,632,388	P333,949,184

See Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(In Thousands, Except Per Share Data)

	Note	**2017 (Unaudited)**	2016 (Unaudited)
REVENUES	*6, 13, 15, 21*	**P40,697,059**	P41,071,705
COST OF POWER SOLD	*13, 16*	**25,090,111**	22,703,987
GROSS PROFIT		**15,606,948**	18,367,718
SELLING AND ADMINISTRATIVE EXPENSES		**2,291,593**	2,626,828
INCOME FROM OPERATIONS		**13,315,355**	15,740,890
INTEREST INCOME		**103,991**	115,967
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*6, 10, 11, 12*	**(6,909,670)**	(6,086,001)
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES - Net		**(45,357)**	(100,205)
OTHER INCOME (CHARGES) - Net	*17*	**(1,630,235)**	156,083
INCOME BEFORE INCOME TAX		**4,834,084**	9,826,734
INCOME TAX EXPENSE - Net		**2,178,829**	3,080,317
NET INCOME/TOTAL COMPREHENSIVE INCOME		**P2,655,255**	P6,746,417
Basic/Diluted Earnings Per Share	*18*	**P0.90**	P4.24

See Notes to the Condensed Consolidated Interim Financial Statements.

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

	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Equity Reserves	Reserve for Retirement Plan	Retained Earnings	Total Equity
Balance as of January 1, 2017 (Audited)		**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P26,371)**	**P23,425,647**	**P54,670,624**
Net income/total comprehensive income for the period		**-**	**-**	**-**	**-**	**-**	**2,655,255**	**2,655,255**
Distributions paid	*14*	**-**	**-**	**-**	**-**	**-**	**(1,520,194)**	**(1,520,194)**
Balance as of June 30, 2017 (Unaudited)		**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P26,371)**	**P24,560,708**	**P55,805,685**
Balance as of January 1, 2016 (Audited)		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Net income /total comprehensive income for the period		-	-	-	-	-	6,746,417	6,746,417
Dividends declared	*14*	-	-	-	-	-	(1,500,000)	(1,500,000)
Distributions paid	*14*	-	-	-	-	-	(1,446,027)	(1,446,027)
Balance as of June 30, 2016 (Unaudited)		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P28,979,948	P60,235,648

See Notes to the Condensed Consolidated Interim Financial Statements.

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

CONDENSED CONSOLIDATED INTERIM
STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2017 AND 2016
(In Thousands)

	Note	**2017 (Unaudited)**	2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P4,834,084**	P9,826,734
Adjustments for:			
Interest expense and other financing charges	*6, 10, 11, 12*	**6,909,670**	6,086,001
Depreciation and amortization	*6, 9*	**2,722,858**	3,319,603
Impairment losses on trade and other receivables		**69,322**	44,016
Equity in net losses of associates and joint ventures - net		**45,357**	100,205
Retirement benefit expense		**13,193**	8,821
Interest income		**(103,991)**	(115,967)
Unrealized foreign exchange gains - net		**(2,649,124)**	(1,207,361)
Operating income before working capital changes		**11,841,369**	18,062,052
Decrease (increase) in:			
Trade and other receivables - net		**334,282**	(1,883,176)
Inventories		**546,277**	165,963
Prepaid expenses and other current assets		**2,048,075**	252,890
Increase (decrease) in:			
Accounts payable and accrued expenses		**3,026,950**	(42,687)
Other noncurrent liabilities		**6,552**	(1,186)
Cash generated from operations		**17,803,505**	16,553,856
Interest income received		**69,064**	122,733
Finance cost paid		**(1,772,355)**	(1,442,084)
Income taxes paid		**(931,497)**	(1,204,564)
Net cash flows provided by operating activities		**15,168,717**	14,029,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Return of (additions to) investments and advances		**(225,230)**	960,068
Additions to property, plant and equipment	*9*	**(5,006,129)**	(9,454,004)
Additions to deferred exploration and development costs		**(2,270)**	(1,862)
Additions to intangible assets		**(64,879)**	(150,854)
Additions to other noncurrent assets		**(2,320,355)**	(628,101)
Net cash flows used in investing activities		**(7,618,863)**	(9,274,753)

Forward

	Note	2017 (Unaudited)	2016 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	*12*	**P57,000,000**	P11,269,078
Proceeds from short-term borrowings	*11*	**53,543,200**	14,364,000
Payments of long-term debt	*12*	**(41,781,615)**	(14,901,600)
Payments of short-term borrowings	*11*	**(37,573,200)**	-
Payments of finance lease liabilities	*6*	**(12,341,453)**	(11,839,814)
Distributions to undated subordinated capital security holders	*14*	**(1,520,194)**	(1,446,027)
Dividends paid	*14*	**-**	(1,500,000)
Net cash flows provided by (used in) financing activities		**17,326,738**	(4,054,363)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**109,388**	63,121
NET INCREASE IN CASH AND CASH EQUIVALENTS		**24,985,980**	763,946
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**21,491,385**	22,241,361
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P46,477,365**	P23,005,307

See Notes to the Condensed Consolidated Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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, lease, develop 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's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

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

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

2. Basis of Preparation

<u>Statement of Compliance</u>
The accompanying condensed consolidated interim 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, 2016. 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 condensed consolidated interim financial statements were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on September 14, 2017.

<u>Basis of Measurement</u>
The condensed consolidated interim financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit retirement liability which is measured at present value of the defined benefit retirement obligation.

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

Basis of Consolidation
The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services, coal mining, local manpower services and investment in land properties are incorporated in the Philippines and registered with the Philippine SEC. The condensed consolidated interim financial statements include the accounts of the Parent Company and its subsidiaries as follows:

	Percentage of Ownership	
	2017	2016
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Corp. (SPDC)	**100**	100
SMC PowerGen Inc. (SPI)	**100**	100
Limay Power Generation Corporation [c]	**100**	100
SMC Consolidated Power Corporation (SCPC) [g] [j]	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [b]	**100**	100
Central Luzon Premiere Power Corp. (CLPPC) [e]	**100**	100
Limay Premiere Power Corp. (LPPC) [e] [j]	**100**	100
PowerOne Ventures Energy Inc. (PVEI) [h]	**100**	100
Prime Electric Generation Corporation [k]	**100**	-
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp. (APEC)	**100**	100
SMC Power Generation Corp. (SPGC) [i]	**100**	100
Coal Mining		
Daguma Agro-Minerals, Inc. (DAMI) [a]	**100**	100
Sultan Energy Phils. Corp. (SEPC) [a]	**100**	100
Bonanza Energy Resources, Inc. (BERI) [a]	**100**	100
Others		
Mantech Power Dynamics Services Inc. (MPDSI)	**100**	100
Safetech Power Services Corp. (SPSC)	**100**	100
Ondarre Holding Corporation (OHC) [d]	**100**	100
Golden Quest Equity Holdings Inc. (GQEHI) [a]	**100**	100
Grand Planters International, Inc. (GPII) [f]	**100**	100

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of June 30, 2017.
(b) On-going testing of its 2 x 150 Mega Watt (MW) Malita Coal-fired Power Plant.
(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of June 30, 2017.
(d) Acquired in February 2015 and has not yet started commercial operations as of June 30, 2017.
(e) Incorporated in 2015 and has not yet started commercial operations as of June 30, 2017.
(f) Acquired in September 2015.
(g) In May 2017, SCPC started commercial operations of Unit 1 of its initial 2 x 150 MW Coal-fired Power Plant in Limay, Bataan.
(h) PVEI owns 60% of the outstanding capital stock of Angat Hydropower Corporation (AHC) and KWPP Holdings Corporation as joint ventures.
(i) SPGC owns 35% of the outstanding capital stock of Olongapo Electricity Distribution Company, Inc. (OEDC), as an associate.
(j) On June 22, 2017, LPPC sold its 2 x 150 MW Coal-fired Power Plant under construction to SCPC.
(k) Incorporated in 2017 and has not yet started commercial operations as of June 30, 2017.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

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 condensed consolidated interim 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. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2016. 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, 2017.

Amendments to Standards Adopted in 2017

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

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows*). The amendments improve disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:

  - *Clarification of the Scope of the Standard (Amendments to PFRS 12, Disclosure of Interests in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the condensed consolidated interim financial statements. The Group is in the process of assessing the impact of these new and amended standards on the Group's financial statements.

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:

  - *Measuring an associate or joint venture at fair value (Amendments to PAS 28, Investments in Associates).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

- *PFRS 9 (2014), Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

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

- *PFRS 15, Revenue from Contracts with Customers, replaces PAS 11, Construction Contracts, PAS 18, Revenue,* International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group’s performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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

- *Philippine Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration.* The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

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

- *PFRS 16, Leases,* supersedes *PAS 17*, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. Potential impact is being assessed.

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

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

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

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

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

4. Use of Judgments, Estimates and Assumptions

In preparing these condensed consolidated interim 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 expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2016.

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 power plants make it more useful to users of the condensed consolidated interim 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 stage of mining activities. The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of June 30, 2017 and December 31, 2016, the information about this component of the Group would not be useful to the users of the condensed consolidated interim financial statements.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment except investments and advances, intangible assets and goodwill and deferred tax assets. Segment liabilities include all operating liabilities except long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

Inter-segment Transactions
The Group's inter-segment sales are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. 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 agreements, concession agreement and other power-related service agreements (Note 6), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
Manila Electric Company (Meralco)	**P22,998,479**	P22,137,780
WESM	**2,060,513**	2,212,379

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 Six-Month Periods Ended											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)	**June 30 2017 (Unaudited)**	June 30 2016 (Unaudited)	**June 30 2017 (Unaudited)**	June 30 2016 (Unaudited)	**June 30 2017 (Unaudited)**	June 30 2016 (Unaudited)	**June 30 2017 (Unaudited)**	June 30 2016 (Unaudited)	**June 30 2017 (Unaudited)**	June 30 2016 (Unaudited)
Revenues												
External	**P35,528,827**	P38,602,402	**P5,168,232**	P2,469,303	**P -**	P -	**P -**	P -	**P -**	P -	**P40,697,059**	P41,071,705
Inter-segment	**5,755,022**	3,556,292	**29,531**	-	**-**	-	**83,468**	-	**(5,868,021)**	(3,556,292)	**-**	-
	41,283,849	42,158,694	**5,197,763**	2,469,303	**-**	-	**83,468**	-	**(5,868,021)**	(3,556,292)	**40,697,059**	41,071,705
Cost and Expenses												
Cost of power sold	**25,775,754**	23,759,989	**5,207,943**	2,469,940	**-**	-	**-**	-	**(5,893,586)**	(3,525,942)	**25,090,111**	22,703,987
Selling and administrative expenses	**1,982,165**	2,236,396	**204,281**	83,023	**11,357**	14,192	**863,599**	824,732	**(769,809)**	(531,515)	**2,291,593**	2,626,828
	27,757,919	25,996,385	**5,412,224**	2,552,963	**11,357**	14,192	**863,599**	824,732	**(6,663,395)**	(4,057,457)	**27,381,704**	25,330,815
Segment Result	**P13,525,930**	P16,162,309	**(P214,461)**	(P83,660)	**(P11,357)**	(P14,192)	**(P780,131)**	(P824,732)	**P795,374**	P501,165	**P13,315,355**	P15,740,890
Interest income											**103,991**	115,967
Interest expense and other financing charges											**(6,909,670)**	(6,086,001)
Equity in net losses of associates and joint ventures - net											**(45,357)**	(100,205)
Other income (charges) - net											**(1,630,235)**	156,083
Income tax expense - net											**(2,178,829)**	(3,080,317)
Consolidated Net Income											**P2,655,255**	P6,746,417

	For the Six-Month Periods Ended											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	June 30 2017 (Unaudited)	December 31 2016 (Audited)	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)
Other Information												
Segment assets	**P326,958,729**	P300,511,384	**P3,661,970**	P2,765,423	**P725,891**	P734,328	**P37,014,983**	P34,520,658	**(P29,294,787)**	(P26,355,752)	**P339,066,786**	P312,176,041
Investments and advances - net	**9,815,889**	9,832,438	**183,981**	196,723	**-**	-	**52,831,952**	52,595,284	**(46,406,495)**	(46,378,991)	**16,425,327**	16,245,454
Intangible assets and goodwill - net											**2,584,561**	2,572,119
Deferred tax assets											**2,555,714**	2,955,570
Consolidated Total Assets											**P360,632,388**	P333,949,184
Segment liabilities	**P234,094,805**	P232,894,743	**P4,716,723**	P3,704,565	**P779,454**	P776,554	**P11,297,034**	P751,230	**(P32,929,425)**	(P30,084,673)	**P217,958,591**	P208,042,419
Long-term debt											**81,108,221**	66,323,726
Income tax payable											**270,510**	127,198
Deferred tax liabilities											**5,489,381**	4,785,217
Consolidated Total Liabilities											**P304,826,703**	P279,278,560
Capital expenditures	**P4,983,562**	P14,849,968	**P -**	P -	**P -**	P -	**P22,567**	P12,165	**P -**	P -	**P5,006,129**	P14,862,133
Depreciation and amortization of property, plant and equipment and intangible assets	**2,646,474**	6,201,578	**14,698**	25,639	**5,480**	15,229	**56,206**	99,485	**-**	-	**2,722,858**	6,341,931
Noncash items other than depreciation*	**262,655**	7,755,076	**82,035**	779,891	**(2)**	(3)	**(2,865,940)**	769,731	**-**	-	**(2,521,252)**	9,304,695

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

6. Significant Agreements

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

Subsidiary	Power Plant	Location
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 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 as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P11,580,236 and P10,529,164 for the six-month periods ended June 30, 2017 and 2016, respectively (Note 16). SMEC and SPDC renewed their performance bonds in United States dollar (US$) amounting to US$58,187 and US$20,305 which will expire on November 3, 2017 and January 25, 2018, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is the subject of an ongoing case before the courts (Note 21).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of comprehensive income. Interest expense amounted to P4,619,749 and P4,904,754 for the six-month periods ended June 30, 2017 and 2016, respectively.

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

June 30, 2017 (Unaudited)	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$254,343**	**P12,836,680**	**P12,180,107**	**P25,016,787**
More than 1 year and not later than 5 years	**1,140,288**	**57,550,353**	**54,610,384**	**112,160,737**
Later than 5 years	**669,830**	**33,806,342**	**32,121,073**	**65,927,415**
	2,064,461	**104,193,375**	**98,911,564**	**203,104,939**
Less: Future finance charges on finance lease liabilities	**276,247**	**13,942,208**	**25,418,717**	**39,360,925**
Present values of finance lease liabilities	**US$1,788,214**	**P90,251,167**	**P73,492,847**	**P163,744,014**

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

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

June 30, 2017 (Unaudited)	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$189,451**	**P9,561,596**	**P6,576,508**	**P16,138,104**
More than 1 year and not later than 5 years	**771,918**	**38,958,682**	**24,226,425**	**63,185,107**
Later than 5 years	**826,845**	**41,730,889**	**42,689,914**	**84,420,803**
	US$1,788,214	**P90,251,167**	**P73,492,847**	**P163,744,014**

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

b. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and SCPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the Energy Regulatory Commission (ERC). PEMC's market fees charged to SMEC, SPDC, SPPC and SCPC recognized in the profit or loss amounted to P79,851 and P91,198 for the six-month periods ended June 30, 2017 and 2016, respectively.

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2017, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SCPC, and SMCPC have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, particularly electric cooperatives and industrial customers, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

SMEC, SPPC and SPDC can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P3,760,879 and P3,511,043 for the six-month periods ended June 30, 2017 and 2016, respectively (Note 16).

d. Concession Agreement

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

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

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

i. as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees);

ii. if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529;

iii. on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and

iv. at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

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

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P450,731 and P386,083 as of June 30, 2017 and December 31, 2016, respectively. Interest expense on concession payable is included as part of "Interest expense and other financing charges" account in the condensed consolidated interim statements of comprehensive income and amounted to P3,014 and P3,080 for the six-month periods ended June 30, 2017 and 2016, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the condensed consolidated interim statements of comprehensive income amounted to P14,409 and P11,987 for the six-month periods ended June 30, 2017 and 2016, respectively (Note 16).

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

	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Not later than 1 year	**P2,477**	P2,407
More than 1 year and not later than 5 years	**11,460**	11,136
Later than 5 years	**89,502**	91,083
	P103,439	P104,626

Power concession assets consist of:

	Concession Fee	**Completed Projects/ Others**	**Asset Under Construction**	**Total**
Cost				
January 1, 2016 (Audited)	P384,317	P159,086	P -	P543,403
Additions	-	72,824	154,173	226,997
December 31, 2016 (Audited)	384,317	231,910	154,173	770,400
Additions	-	64,649	-	64,649
June 30, 2017 (Unaudited)	**384,317**	**296,559**	**154,173**	**835,049**
Accumulated Depreciation and Amortization				
January 1, 2016 (Audited)	28,184	7,722	-	35,906
Additions	15,373	30,147	-	45,520
December 31, 2016 (Audited)	43,557	37,869	-	81,426
Additions	7,686	6,723	-	14,409
June 30, 2017 (Unaudited)	**51,243**	**44,592**	**-**	**95,835**
Carrying Amount				
December 31, 2016 (Audited)	P340,760	P194,041	P154,173	P688,974
June 30, 2017 (Unaudited)	**P333,074**	**P251,967**	**P154,173**	**P739,214**

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P64,649 and P129,290 for the six-month periods ended June 30, 2017 and 2016, respectively.

7. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)
Trade		**P15,368,747**	P12,269,984
Non-trade		**6,806,510**	6,613,459
Amounts owed by related parties	*6, 13*	**2,407,557**	5,911,221
		24,582,814	24,794,664
Allowance for impairment losses		**2,521,140**	2,451,818
	19, 20	**P22,061,674**	P22,342,846

Trade and other receivables are mostly 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 VAT on the sale of power collectible from customers.

The aging of trade and other receivables are as follows:

	June 30, 2017 (Unaudited)				December 31, 2016 (Audited)			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P7,971,219**	**P732,701**	**P2,288,991**	**P10,992,911**	P5,576,247	P1,031,133	P5,282,075	P11,889,455
Past due:								
1-30 days	**1,061,735**	**157,591**	**25,687**	**1,245,013**	671,466	73,200	8,900	753,566
31-60 days	**287,843**	**41,275**	**9,741**	**338,859**	505,682	62,467	27,134	595,283
61-90 days	**79,327**	**59,463**	**12,385**	**151,175**	201,448	10,207	31,563	243,218
Over 90 days	**5,968,623**	**5,815,480**	**70,753**	**11,854,856**	5,315,141	5,436,452	561,549	11,313,142
	P15,368,747	**P6,806,510**	**P2,407,557**	**P24,582,814**	P12,269,984	P6,613,459	P5,911,221	P24,794,664

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due 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.

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)
Input VAT		**P10,895,087**	P12,398,635
Prepaid tax		**4,332,787**	3,735,642
Prepaid rent and others	*13*	**407,071**	1,548,743
		P15,634,945	P17,683,020

Input VAT consists of input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 11).

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

9. Property, Plant and Equipment

Property, plant and equipment consists of:

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2016 (Audited)	P226,788,832	P2,996,339	P1,316,545	P5,841,443	P52,426,658	P289,369,817
Additions	10,654,500	1,054,299	730,036	31,311	2,391,987	14,862,133
Disposals/reclassifications	(12,469,072)	(332,055)	(978,469)	(5,831,097)	(1,126,468)	(20,737,161)
Transfers to Assets held for sale	-	-	-	-	(184,324)	(184,324)
December 31, 2016 (Audited)	224,974,260	3,718,583	1,068,112	41,657	53,507,853	283,310,465
Additions	285,248	-	61,485	-	4,659,396	5,006,129
Reclassifications	15,651,214	-	-	-	(15,529,258)	121,956
June 30, 2017 (Unaudited)	**240,910,722**	**3,718,583**	**1,129,597**	**41,657**	**42,637,991**	**288,438,550**
Accumulated Depreciation and Amortization						
January 1, 2016 (Audited)	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	5,826,594	51,000	141,779	229,897	-	6,249,270
Disposals/reclassifications	(2,221,036)	(99,617)	(231,534)	(791,466)	-	(3,343,653)
December 31, 2016 (Audited)	36,566,871	42,462	206,885	6,220	-	36,822,438
Additions	2,610,942	12,701	44,476	2,302	-	2,670,421
June 30, 2017 (Unaudited)	**39,177,813**	**55,163**	**251,361**	**8,522**	**-**	**39,492,859**
Carrying Amount						
December 31, 2016 (Audited)	P188,407,389	P3,676,121	P861,227	P35,437	P53,507,853	P246,488,027
June 30, 2017 (Unaudited)	**P201,732,909**	**P3,663,420**	**P878,236**	**P33,135**	**P42,637,991**	**P248,945,691**

a. The combined carrying amounts of power plants under finance lease amounted to P175,166,693 and P177,759,894 as of June 30, 2017 and December 31, 2016, respectively (Note 6).

b. Capital projects in progress (CPIP) pertains to the following:

   i. Project of SMCPC for the construction of 2 x 150 MW (Units 1 and 2) Malita Coal-fired Power Plant.

      Following the completion of Unit 1 and the ERC grant of a Provisional Authority to Operate in favor of SMCPC in October 2016, all CPIP costs pertaining to Unit 1 were reclassified to the appropriate property, plant and equipment account.

   ii. Project of SCPC for the construction of 4 x 150 MW (Phase 1 comprising of Units 1 and 2; Phase 2 comprising of Units 3 and 4) Limay Coal-fired Power Plants.

      All CPIP costs pertaining to Unit 1 were reclassified to the appropriate property, plant and equipment account following its completion and the ERC grant of a Provisional Authority to Operate in favor of SCPC in March 2017.

   iii. Plant optimization and pumped-storage hydropower projects of SPDC.

c. The Group has capitalized interest amounting to P59,428 and P610,707 as at June 30, 2017 and December 31, 2016, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 4.09% to 4.20% and from 3.88% to 6.29% as of June 30, 2017 and December 31, 2016, respectively. The unamortized capitalized borrowing costs amounted to P748,421 and P627,126 as of June 30, 2017 and December 31, 2016, respectively (Notes 10 and 12).

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

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
Cost of power sold	**P2,593,202**	P3,222,390
Selling and administrative expenses	**77,219**	54,012
	P2,670,421	P3,276,402

10. Loans Payable

Loans payable as of June 30, 2017 consists of:

Parent Company	
Foreign currency-denominated	**P10,094,000**
SMCPC	
Philippine peso-denominated	**5,930,000**
	P16,024,000

This account pertains to unsecured Philippine peso and US dollar-denominated short-term loans obtained from various local financial institutions in the first half of 2017. Interest rate for peso-denominated loan is 2.75% and is repriced every 30 days. Interest rate for US dollar-denominated loan is based on a 1-month London Interbank Offered Rate (LIBOR) plus a margin (Note 12).

Interest expense on short-term loans amounted to P134,529 (inclusive of P49,161 capitalized in CPIP) for the six-month period ended June 30, 2017.

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 19.

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)
Trade	*6*	**P12,600,043**	P11,914,211
Non-trade		**18,813,882**	19,125,230
Output VAT		**5,095,614**	5,569,399
Withholding taxes		**786,521**	203,415
Accrued interest	*6, 10, 12*	**436,726**	283,724
Amounts owed to related parties	*13*	**214,579**	633,436
	19, 20	**P37,947,365**	P37,729,415

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

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

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 7).

12. Long-term Debt

Long-term debt consists of:

	Note	**June 30 2017 (Unaudited)**	December 31 2016 (Audited)
Bonds payable *(a)*		**P15,000,000**	P15,000,000
Less debt issue costs		**146,285**	157,437
		14,853,715	14,842,563
Term loans *(b)*		**67,094,000**	52,670,304
Less debt issue costs		**839,494**	1,189,141
		66,254,506	51,481,163
	19, 20	**81,108,221**	66,323,726
Less current maturities		**551,909**	1,040,690
		P80,556,312	P65,283,036

a. Bonds Payable

Peso-denominated Bonds
On July 11, 2016, the Parent Company issued and listed in the Philippine Dealing and Exchange Corp. (PDEx) fixed rate Philippine peso-denominated bonds with an aggregate principal amount of P15,000,000 (the "Bonds" or "Offer"). The Bonds were issued at the issue price of 100% of face value in three series: Series A Bonds, Series B Bonds and Series C Bonds.

The terms and interest rates of the Bonds are as follows:

	Term	Interest Rate Per Annum
Series A Bonds	five (5) years, due 2021	4.3458%
Series B Bonds	seven (7) years, due 2023	4.7575%
Series C Bonds	ten (10) years, due 2026	5.1792%

Interest on the Bonds shall be payable quarterly in arrears starting on October 11, 2016, for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds of the Offer was utilized primarily by the Parent Company to refinance the US$300,000 short-term bridge financing loan that matured on July 25, 2016.

b. Term Loans

i. Parent Company
On September 9, 2013, the Parent Company signed a US$650,000, five (5)-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US$650,000 Facility Agreement was amended extending the loan facility from US$650,000 to US$700,000 (the "US$700,000 Term Loan").

The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions.

In March 2015, the remaining US$200,000 was drawn by the Parent Company from the US$700,000 Term Loan, which will mature in September 2018.

On March 31, 2017, the Parent Company prepaid US$200,000 (equivalent to P10,043,000) out of the US$700,000 Term Loan. The prepayment was funded by another US$200,000 short-term bridge financing loan availed on March 30, 2017 from a local bank solely for this purpose. The refinancing lowered the interest margin from 1.9% to 1.0% (Note 10).

On April 26, 2017, the Parent Company prepaid an additional US$300,000 (equivalent to P14,911,500) out of the US$700,000 Term Loan, by availing of a P15,000,000 fixed-rate, seven (7)-year term loan from a local bank. The US$700,000 Term Loan was partly refinanced with a peso-denominated loan to minimize the Group's exposure to foreign exchange losses brought by the continuing peso depreciation against the US dollar.

As of June 30, 2017, the remaining balance of the US$700,000 Term Loan amounted to US$200,000 (Note 21).

ii. SCPC

On December 29, 2015, SCPC signed a facility agreement for a US$400,000, seven (7)-year term loan with a syndicate of banks, including a related party, (the "Facility Agreement"). Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period.

As of December 31, 2016, total drawn amount from the Facility Agreement is US$359,339 (equivalent to P17,866,304) which included an amount owed to a related party of P2,687,451.

On May 8, 2017, SCPC obtained a short-term bridge financing loan amounting to US$360,000 from a local bank to fully prepay the US$359,339 7-year term loan on May 9, 2017. The US$360,000 short-term bridge financing loan bears an interest based on 1-month LIBOR plus a margin.

On June 22, 2017, SCPC entered into a twelve (12)-year term loan facility, with a syndicate of banks, amounting to P44,000,000 from which P42,000,000 has been drawn on June 28, 2017 (the "Project Financing") for the following purposes:

i. the settlement of the US$360,000 short-term bridge financing loan,

ii. to fund the acquisition of the 2 x 150 MW Limay Coal-fired Power Plant under construction from LPPC, and

iii. the repayment of shareholder advances.

The Omnibus Loan and Security Agreement (OLSA) for the Project Financing imposes a number of covenants on the part of SCPC including, but not limited to, maintaining a certain leverage ratio throughout the duration of the term of the OLSA. The terms and conditions of the OLSA include a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of its assets or revenues and to secure any indebtedness, subject to certain exceptions.

The loan is secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC.

The movements in debt issue costs are as follows:

	Note	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Balance at beginning of period		**P1,346,578**	P685,839
Additions		**867,505**	1,142,741
Amortization		**(1,165,776)**	(369,403)
Capitalized amount	*9*	**(62,528)**	(112,599)
Balance at end of period		**P985,779**	P1,346,578

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

	Gross Amount				
Period Covered	US Dollar	Peso Equivalent of US Dollar	Peso	Debt Issue Costs	Net
July 1, 2017 to June 30, 2018	US$ -	P -	P600,000	P48,091	P551,909
July 1, 2018 to June 30, 2019	200,000	10,094,000	1,200,000	150,273	11,143,727
July 1, 2019 to June 30, 2020	-	-	1,200,000	50,050	1,149,950
July 1, 2020 to June 30, 2021	-	-	2,145,000	155,361	1,989,639
July 1, 2021 to June 30, 2022	-	-	8,613,250	136,225	8,477,025
July 1, 2022 and thereafter	-	-	58,241,750	445,779	57,795,971
	US$200,000	P10,094,000	P72,000,000	P985,779	P81,108,221

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 19.

13. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of June 30, 2017 and December 31, 2016:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*7, 11, 15*	**2017** 2016	**P31,010** -	**P307,694** 660,590	**P6,474** 252	**P2,790** 6,201	On demand or 30 days; non-interest bearing	Unsecured; no impairment
Entities under Common Control	*6, 7, 8, 11, 15, 16*	**2017** 2016	**1,062,327** 10,248,500	**379,822** 3,300,854	**749,140** 1,589,923	**175,707** 562,408	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	7	**2017** 2016	**-** 17,883,913	**-** -	**-** 4,063,525	**-** -	180 days; non-interest bearing	Unsecured; no impairment
Associate	*7, 11*	**2017** 2016	**451,845** 1,004,967	**78,559** 198,445	**55,836** 90,767	**28,299** 36,040	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2017 2016	**33,303** -	**-** -	**1,427,316** -	**-** -	92 days; interest bearing	Unsecured; no impairment
		2017 2016	**6,504** 12,929	**-** -	**253,529** 254,827	**-** -	9 years; interest bearing	Unsecured; no impairment
Associates of Entities under Common	*6, 7, 11*	**2017** 2016	**480,542** 763,309	**8,484** 199,635	**87,913** 102,256	**7,783** 28,787	30 days; non-interest bearing	Unsecured; no impairment
Control	*12*	**2017** 2016	**-** -	**-** -	**-** -	**-** 2,687,451	7 years; Interest bearing	Secured
Others	*7*	**2017** 2016	**11,278** 84,493	**-** -	**41,026** 37,065	**-** -	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2017	**P2,076,809**	**P774,559**	**P2,621,234**	**P214,579**		
		2016	P29,998,111	P4,359,524	P6,138,615	P3,320,887		

a. Amounts owed by related parties consist of trade and other receivables and security deposits (Note 7).

b. Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the condensed consolidated interim statements of financial position and management fees charged to AHC by PVEI (Note 7).

c. Amounts owed to related parties consist of trade and non-trade payables pertaining to management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.

d. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of "Long-term debt" account in the condensed consolidated interim statements of financial position (Note 12).

14. Dividends and Distributions

Cash Dividends

On June 7, 2016, the BOD of the Parent Company declared cash dividends amounting to a total of P1,500,000 (at approximately P1.20 per common share) payable to stockholders of record as of the same date. The cash dividends were paid on June 14, 2016.

Undated Subordinated Capital Securities (USCS) Holders

The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

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

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

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

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

Details of distributions paid to USCS holders are as follows:

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
February	**P720,611**	P689,223
May	**799,583**	756,804
	P1,520,194	P1,446,027

On May 5, 2017, the Parent Company's BOD approved the payment of distribution in the total amount of US$10,125, plus applicable taxes, on August 26, 2017 to the holders of the US$300,000 USCS issued in August 2015.

15. Revenues

Revenues consists of:

		June 30	
	Note	**2017 (Unaudited)**	2016 (Unaudited)
Sale of power		**P35,528,827**	P38,602,402
Retail and other power-related services		**5,168,232**	2,469,303
	6, 13	**P40,697,059**	P41,071,705

16. Cost of Power Sold

Cost of power sold consists of:

		June 30	
	Note	**2017 (Unaudited)**	2016 (Unaudited)
Energy fees	*6*	**P11,580,236**	P10,529,164
Coal, fuel oil and other consumables	*13*	**7,085,694**	5,210,866
Power purchases	*6*	**3,760,879**	3,511,043
Depreciation and amortization	*6, 9*	**2,607,611**	3,234,376
Plant operations and maintenance fees		**55,691**	218,538
		P25,090,111	P22,703,987

17. Other Income (Charges)

Other income (charges) consists of:

		June 30	
	Note	**2017 (Unaudited)**	2016 (Unaudited)
PSALM monthly fees reduction	*6*	**P267,593**	P2,428
Construction revenue	*6*	**64,649**	129,290
Construction cost	*6*	**(64,649)**	(129,290)
Foreign exchange gain (losses) - net	*19*	**(1,959,842)**	42,757
Miscellaneous income - net	*13*	**62,014**	110,898
		(P1,630,235)	P156,083

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

18. Basic and Diluted Earnings Per Share (EPS)

Basic and diluted EPS is computed as follows:

	June 30	
	2017 (Unaudited)	2016 (Unaudited)
Net income attributable to equity holders of the Parent Company	**P2,655,255**	P6,746,417
Distributions to USCS holders for the period	**(1,530,131)**	(1,440,177)
Net income attributable to common shareholders of the Parent Company (a)	**1,125,124**	5,306,240
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/Diluted EPS (a/b)	**P0.90**	P4.24

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

19. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, other receivables (current and noncurrent), restricted cash, non-trade payables, loans payable and long-term debt. These financial 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 and finance lease liabilities arise directly from and are used to facilitate its daily operations.

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the annual report of the Group.

The Audit Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the short-term and 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.

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by nil and P14,127 for the periods ended June 30, 2017 and December 31, 2016. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

Interest Rate Risk Table

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

June 30, 2017 (Unaudited)	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P6,530,000**	**P1,200,000**	**P1,200,000**	**P2,145,000**	**P8,613,250**	**P58,241,750**	**P77,930,000**
Interest rate	**2.7500% to 6.9265%**	**6.2836% to 6.9265%**	**6.2836% to 6.9265%**	**6.2836% to 6.9265%**	**4.3458% to 6.9265%**	**4.7575% to 6.9265%**	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**10,094,000**	**10,094,000**	**-**	**-**	**-**	**-**	**20,188,000**
Interest rate	**LIBOR + Margin**	**LIBOR + Margin**					
	P16,624,000	**P11,294,000**	**P1,200,000**	**P2,145,000**	**P8,613,250**	**P58,241,750**	**P98,118,000**

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

Foreign Currency Risk

The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

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

		June 30, 2017 (Unaudited)		December 31, 201 (Audited)	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents		**US$44,070**	**P2,224,194**	US$108,229	P5,381,123
Trade and other receivables	*7*	**112,640**	**5,684,966**	80,301	3,992,573
		156,710	**7,909,160**	188,530	9,373,696
Liabilities					
Loans payable	*10*	**200,000**	**10,094,000**	-	-
Accounts payable and accrued expenses	*11*	**134,012**	**6,763,577**	312,823	15,553,551
Finance lease liabilities	*6*	**1,788,214**	**90,251,167**	1,880,371	93,492,054
Long-term debt	*12*	**200,000**	**10,094,000**	1,059,339	52,670,304
		2,322,226	**117,202,744**	3,252,533	161,715,909
Net foreign currency-denominated monetary liabilities		**US$2,165,516**	**P109,293,584**	US$3,064,003	P152,342,213

The Group reported net gain (loss) on foreign exchange amounting to (P1,959,842) and P42,757 for the six-month periods ended June 30, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2017	**50.47**
December 31, 2016	49.72
June 30, 2016	47.06
December 31, 2015	47.06

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

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

	June 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P44,070)**	**P44,070**	(P108,229)	P108,229
Trade and other receivables	**(112,640)**	**112,640**	(80,301)	80,301
	(156,710)	**156,710**	(188,530)	188,530
Loans payable	**200,000**	**(200,000)**	-	-
Accounts payable and accrued expenses	**134,012**	**(134,012)**	312,823	(312,823)
Finance lease liabilities	**1,788,214**	**(1,788,214)**	1,880,371	(1,880,371)
Long-term debt	**200,000**	**(200,000)**	1,059,339	(1,059,339)
	2,322,226	**(2,322,226)**	3,252,533	(3,252,533)
	P2,165,516	**(P2,165,516)**	P3,064,003	(P3,064,003)

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

<u>Liquidity Risk</u>
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 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, 2017 (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	**P46,477,365**	**P46,477,365**	**P46,477,365**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**22,061,548**	**22,061,548**	**22,061,548**	**-**	**-**	**-**
Noncurrent receivables (included under "Other noncurrent assets - net" account)	**258,358**	**295,749**	**-**	**77,195**	**116,640**	**101,914**
Financial Liabilities						
Loans payable	**16,024,000**	**16,038,745**	**16,038,745**	**-**	**-**	**-**
Accounts payable and accrued expenses*	**31,199,989**	**31,199,989**	**31,199,989**	**-**	**-**	**-**
Finance lease liabilities (including current portion)	**163,744,014**	**203,104,939**	**25,016,787**	**25,760,978**	**86,399,759**	**65,927,415**
Long-term debt - net (including current maturities)	**81,108,221**	**118,157,576**	**5,405,772**	**15,781,288**	**24,394,862**	**72,575,654**

**Excluding statutory receivables and payables*

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

**Excluding statutory receivables and payables*

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Cash and cash equivalents (excluding cash on hand)	**P46,476,078**	P21,490,065
Trade and other receivables - net*	**22,061,548**	22,342,743
Noncurrent receivables (included under "Other noncurrent assets" account)	**258,358**	272,019
	P68,795,984	P44,104,827

**Excluding statutory receivables*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 57%, and 54% of the Group's total revenues for the six-month periods ended June 30, 2017 and 2016, respectively. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stockholders 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.

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

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

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

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

20. 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, 2017 (Unaudited)		December 31, 2016 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P46,477,365**	**P46,477,365**	P21,491,385	P21,491,385
Trade and other receivables - net*	**22,061,548**	**22,061,548**	22,342,743	22,342,743
Noncurrent receivables (included under "Other noncurrent assets - net" account)	**258,358**	**258,358**	272,019	272,019
	P68,797,271	**P68,797,271**	P44,106,147	P44,106,147
Financial Liabilities				
Loans payable	**P16,024,000**	**P16,024,000**	P -	P -
Accounts payable and accrued expenses*	**31,199,989**	**31,199,989**	31,095,490	31,095,490
Finance lease liabilities (including current portion)	**163,744,014**	**163,744,014**	170,089,536	170,089,536
Long-term debt - net (including current maturities)	**81,108,221**	**89,476,903**	66,323,726	66,611,049
	P292,076,224	**P300,444,906**	P267,508,752	P267,796,075

**Excluding statutory receivables and payables*

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

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

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

Long-term Debt and Finance Lease Liabilities. The fair value of interest bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 1.72% to 4.91% and 2.18% to 4.88% as of June 30, 2017 and December 31, 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

21. Other Matters

a. Significant Transactions During the Period

i. SMCPC

In 2013, SMCPC started the construction of its 2 x 150 MW Malita Coal-fired Power Plant. In 2017, SMCPC deferred the commercial operations of Unit 1 of the power plant until July 25, 2017 which was initially declared to commence on December 26, 2016. This is to conduct further testing of Unit 1 to ensure the stable and reliable operation and readiness of the power plant for its intended use.

ii. PVEI

In January 2017, PVEI and Korea Water Resources Corporation (K-Water) granted shareholder advances amounting to US$31,800 and US$21,200, respectively, to their joint venture company, AHC. The advances bear an annual interest rate of 4.5% and are due on April 30, 2017. The advances may be extended as agreed amongst the parties.

On April 10, 2017, AHC made a partial payment of the foregoing advances totaling US$6,989, of which US$4,193 and US$2,796 were paid to PVEI and K-Water, respectively. Payment date for the remaining balance of the advances amounting to US$46,011 was extended to September 30, 2017 (Notes 7 and 13).

iii. SCPC

On May 26, 2017, SCPC commenced commercial operations of Unit 1 of its 4 x 150 MW Coal-fired Power Plant in Limay, Bataan.

b. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined (Note 4).

i. 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 that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court (RTC) of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. 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. The TRO was extended for until September 28, 2015.

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

On October 22, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals (CA) seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." SPPC shall file the appropriate pleading and opposition to the TRO and injunction applications of PSALM.

The preliminary conference on the RTC case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. The case has been referred to Judicial Dispute Resolution process at the trial court level.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

ii. *Criminal Cases*

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. 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. The case is still pending with the DOJ as of June 30, 2017.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (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 Information against the respondents for: (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On June 17, 2016, SMEC filed with the 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 of electricity generated from capacity in excess of the 1000 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). 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.

Pending for resolution are: (a) PSALM's Motion for Preliminary Hearing and Special and Affirmative Defenses and (b) SMEC's Omnibus Motion (to Admit Supplemental Complaint and to Allow Future Consignations without Tender).

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.

On July 5, 2017, SMEC consigned with the RTC 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. With the submission of manifestation from PSALM, the Motion to Admit Second Supplemental Complaint is submitted for resolution.

iii. Temporary Restraining Order Issued to Meralco

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. 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, including SMEC and SPPC 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. Further, on December 27, 2013, the Philippine Department of Energy, the 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 will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco’s plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while 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. On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the CA a Petition for Review of these orders.

In a resolution dated October 11, 2016, the CA directed the parties to file their respective memoranda. SPPC, SMEC SPDC and SPI filed their memoranda on December 21, 2016. The case is still pending resolution with the CA as of June 30, 2017.

c. <u>Commitments</u>

The outstanding purchase commitments of the Group amounted to P768,382 and P1,588,516 as of June 30, 2017 and December 31, 2016, respectively.

Amount authorized but not yet disbursed for capital projects as of June 30, 2017 and December 31, 2016 is approximately P18,895,819 and P23,038,949, respectively.

d. Events After the Reporting Date

On August 8, 2017, the Parent Company's BOD approved and authorized the following:

i. payment of distribution in the total amount of US$11,250, plus applicable taxes, on November 7, 2017 to the holders of the US$300,000 USCS issued in May 2014,

ii. issuance, offer and sale in the Philippines of fixed rate retail bonds in the aggregate principal amount of up to P35,000,000, with an initial tranche of up to P25,000,000. Proceeds of the offering will be used to refinance the outstanding loans of the Parent Company totaling to US$400,000, and

iii. seek the consent of the Bonds' holders of record as of a certain date, representing more than 50% of the aggregate principal amount of the Bonds, to the proposed amendment to Section 7.2 of the Bonds' Trust Agreement dated June 23, 2016. The proposed amendment pertains to the use of net debt-to-equity and interest coverage ratios as part of the Bonds' financial covenants instead of the leverage ratio to ensure financial flexibility and capacity to secure funding for its capital expenditure requirements and other business plans. Such amendment would also allow the Parent Company to align its credit metrics with those used by the Philippine power companies and with its existing long-term debt obligations.

On August 30, 2017, the Parent Company availed of a US$200,000 short-term bridge financing loan (the "Bridge Financing Loan") from a local bank. The proceeds of the Bridge Financing Loan was used to fully prepay the remaining US$200,000 balance of the US$700,000 Term Loan on August 31, 2017.

SMC GLOBAL POWER HOLDINGS CORP.
AND SUBSIDIARIES

(A Wholly-owned Subsidiary of San Miguel Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

KPMG

Key Audit Matter

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

Valuation of Trade and Other Receivables

The risk -
The Group's disclosures about the measurement and impairment assumptions to determine the recoverability and carrying amount of trade and other receivables are included in the significant accounting policies in Notes 3, 4 and 8 in the consolidated financial statements. As required by Philippine Accounting Standard 39, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. The determination of the recoverable amounts is subject to significant estimation, as a result, we assessed that the impairment testing is a key audit matter. Given the significant estimation, there is a risk that potential impairment loss in trade and other receivables may not be adequately provided for resulting in over valuation of the Group's trade and other receivables.

Our response -
Our audit procedures included, among others, the identification of any events and objective evidence that impairment may exists individually for trade and other receivables that are individually significant and collectively for trade and other receivables that are not individually significant. We evaluated the possible impact that these indications might have on the recoverability of trade and other receivables.

We have:

- Assessed the recoverability of trade and other receivables with reference to the historical levels of impairment losses on trade receivables and credit history of the counterparties.
- Considered the consistency of judgments by the management regarding the recoverability of trade and other receivables to consider whether there is evidence of management bias through discussion with management on their rationale and obtained evidence to support judgment areas.
- Discussed with management regarding the level and aging of trade and other receivables and recoverability of amounts due from customers.
- Evaluated the calculations of the impairment testing as well as the presentation and the relevant disclosures within the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Wilfredo Z. Palad.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2016
Issued April 12, 2016; valid until April 11, 2019
PTR No. 5904939MD
Issued January 3, 2017 at Makati City

March 13, 2017
Makati City, Metro Manila

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	Note	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*7, 27, 28*	**P21,491,385**	P22,241,361
Trade and other receivables - net	*4, 6, 8, 19, 27, 28*	**22,342,846**	18,473,625
Inventories	*4, 6, 9, 19*	**2,272,289**	1,263,218
Prepaid expenses and other current assets	*6, 10*	**17,683,020**	15,068,747
		63,789,540	57,046,951
Assets held for sale	*11, 13*	**184,324**	-
Total Current Assets		**63,973,864**	57,046,951
Noncurrent Assets			
Investments and advances - net	*4, 12*	**16,245,454**	10,612,937
Property, plant and equipment - net	*4, 13*	**246,488,027**	255,452,996
Deferred exploration and development costs	*4, 6, 14*	**693,379**	689,548
Intangible assets and goodwill - net	*4, 14, 15*	**2,572,119**	2,413,249
Deferred tax assets	*4, 24*	**2,955,570**	2,745,943
Other noncurrent assets - net	*16, 19, 27, 28*	**1,020,771**	2,248,226
Total Noncurrent Assets		**269,975,320**	274,162,899
		P333,949,184	P331,209,850
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*17, 19, 27, 28*	**P37,729,415**	P32,841,050
Finance lease liabilities - current portion	*4, 6, 27, 28*	**16,344,246**	16,546,763
Current maturities of long-term debt - net of debt issue costs	*18, 27, 28*	**1,040,690**	15,647,244
Income tax payable		**127,198**	99,275
Total Current Liabilities		**55,241,549**	65,134,332
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*18, 27, 28*	**65,283,036**	42,960,617
Finance lease liabilities - net of current portion	*4, 6, 27, 28*	**153,745,290**	162,646,430
Deferred tax liabilities	*24*	**4,785,217**	3,882,930
Other noncurrent liabilities	*6, 20*	**223,468**	150,283
Total Noncurrent Liabilities		**224,037,011**	209,640,260
Total Liabilities		**279,278,560**	274,774,592

Forward

	Note	2016	2015
Equity	*21*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Undated subordinated capital securities		**26,933,565**	26,933,565
Equity reserves		**785,279**	785,279
Reserve for retirement plan	*20*	**(26,371)**	(15,648)
Retained earnings		**23,425,647**	25,179,558
Total Equity		**54,670,624**	56,435,258
		P333,949,184	P331,209,850

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Thousands, Except Per Share Data)

	Note	**2016**	2015	2014
REVENUES	*5, 6, 19, 29*			
Sale of power		**P72,250,309**	P73,849,465	P80,080,157
Retail and other power-related services		**5,722,121**	3,657,226	4,213,433
		77,972,430	77,506,691	84,293,590
COST AND EXPENSES				
Cost of power sold:				
Energy fees	*5, 6*	**20,477,903**	23,224,178	30,775,896
Coal, fuel oil and other consumables	*5, 6, 9, 19*	**10,046,687**	10,376,590	11,945,280
Power purchases	*5, 6*	**7,836,564**	8,330,550	6,045,468
Depreciation and amortization	*5, 6, 13, 15*	**6,164,942**	6,466,398	6,143,866
Plant operations and maintenance fees	*5, 6, 19, 22*	**476,344**	502,211	575,632
Operating expenses	*5, 6, 19, 22*	**6,239,650**	4,904,135	2,911,930
		51,242,090	53,804,062	58,398,072
INCOME FROM OPERATIONS		**26,730,340**	23,702,629	25,895,518
INTEREST INCOME	*5, 7, 16*	**200,502**	414,444	549,977
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	*5, 13*	**116,357**	-	-
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES	*5, 12*	**(294,795)**	(528,445)	(22,345)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*5, 6, 18*	**(12,354,229)**	(13,130,252)	(13,168,470)
OTHER INCOME (CHARGES) - Net	*5, 6, 23*	**(6,881,754)**	(5,926,050)	68,225
INCOME BEFORE INCOME TAX		**7,516,421**	4,532,326	13,322,905
INCOME TAX EXPENSE - Net	*5, 24, 25*	**3,365,759**	2,703,408	2,693,423
NET INCOME		**P4,150,662**	P1,828,918	P10,629,482
Basic/Diluted Earnings (Loss) Per Share	*26*	**P0.97**	(P0.07)	P7.73

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Thousands)

	Note	2016	2015	2014
NET INCOME		**P4,150,662**	P1,828,918	P10,629,482
OTHER COMPREHENSIVE INCOME				
Item that will not be reclassified to profit or loss				
Reserve for retirement plan	*20*	**(15,319)**	(22,354)	-
Income tax benefit	*24*	**4,596**	6,706	-
		(10,723)	(15,648)	-
TOTAL COMPREHENSIVE INCOME		**P4,139,939**	P1,813,270	P10,629,482

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Equity Reserves	Reserve for Retirement Plan	Retained Earnings	Total Equity
Balance as of January 1, 2016		**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P15,648)**	**P25,179,558**	**P56,435,258**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**4,150,662**	**4,150,662**
Equity reserve for retirement plan - net of tax	*20*	**-**	**-**	**-**	**-**	**(10,723)**	**-**	**(10,723)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(10,723)**	**4,150,662**	**4,139,939**
Cash dividends and distributions:								
Common	*21*	**-**	**-**	**-**	**-**	**-**	**(3,000,000)**	**(3,000,000)**
Undated subordinated capital securities	*21*	**-**	**-**	**-**	**-**	**-**	**(2,904,573)**	**(2,904,573)**
Balance as of December 31, 2016		**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P26,371)**	**P23,425,647**	**P54,670,624**
Balance as of January 1, 2015		P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Net income for the year		-	-	-	-	-	1,828,918	1,828,918
Equity reserve for retirement plan - net of tax	*20*	-	-	-	-	(15,648)	-	(15,648)
Total comprehensive income for the year		-	-	-	-	(15,648)	1,828,918	1,813,270
Issuance of undated subordinated capital securities	*21*	-	-	13,823,499	-	-	-	13,823,499
Cash dividends and distributions:								
Common	*21*	-	-	-	-	-	(4,500,000)	(4,500,000)
Undated subordinated capital securities	*21*	-	-	-	-	-	(1,450,688)	(1,450,688)
Balance as of December 31, 2015		P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Balance as of January 1, 2014		P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843
Net income/total comprehensive income for the year		-	-	-	-	-	10,629,482	10,629,482
Issuance of undated subordinated capital securities	*21*	-	-	13,110,066	-	-	-	13,110,066
Cash dividends and distributions:								
Common	*21*	-	-	-	-	-	(10,000,000)	(10,000,000)
Undated subordinated capital securities	*21*	-	-	-	-	-	(723,214)	(723,214)
Balance as of December 31, 2014		P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In Thousands)

	Note	**2016**	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P7,516,421**	P4,532,326	P13,322,905
Adjustments for:				
Interest expense and other financing charges	*5, 6, 18*	**12,354,229**	13,130,252	13,168,470
Unrealized foreign exchange losses - net		**7,446,813**	7,505,369	1,584,500
Depreciation and amortization	*5, 6, 13, 15, 22*	**6,341,931**	6,539,813	6,187,640
Impairment losses on trade and other receivables	*8, 22, 23*	**1,210,451**	374,801	144,393
Impairment losses on property, plant and equipment	*13*	**323,788**	-	-
Equity in net losses of associates and joint venture	*5, 12*	**294,795**	528,445	22,345
Impairment losses on concession assets		**20,460**	-	-
Retirement benefit expense	*20*	**8,388**	6,611	8,978
Gain on sale of property, plant and equipment	*5, 13*	**(116,357)**	-	-
Interest income	*5, 7, 16*	**(200,502)**	(414,444)	(549,977)
Operating income before working capital changes		**35,200,417**	32,203,173	33,889,254
Decrease (increase) in:				
Trade and other receivables - net	*8*	**(657,993)**	(749,571)	(3,037,652)
Inventories	*9*	**(1,009,071)**	101,815	134,102
Prepaid expenses and other current assets	*10*	**(2,614,273)**	(6,647,768)	(1,902,310)
Other noncurrent assets	*16*	**1,227,455**	221,001	1,290,895
Increase (decrease) in:				
Accounts payable and accrued expenses	*17*	**4,505,312**	4,686,593	5,136,893
Other noncurrent liabilities		**49,479**	(565,860)	670,486
Cash generated from operations		**36,701,326**	29,249,383	36,181,668
Interest income received		**203,493**	426,480	546,350
Income taxes paid		**(2,640,580)**	(1,517,632)	(1,675,452)
Finance cost paid		**(3,182,682)**	(2,907,116)	(2,196,778)
Net cash flows provided by operating activities		**31,081,557**	25,251,115	32,855,788

Forward

	Note	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	*13*	**P13,820,388**	P -	P -
Proceeds from sale of investment		**-**	-	16,228,991
Noncurrent receivable	*16*	**-**	(253,812)	-
Additions to deferred exploration and development costs	*14*	**(3,831)**	(17,765)	(145,784)
Additions to intangible assets	*6, 15*	**(271,991)**	(117,735)	(593,649)
Net additions to investments and advances	*12*	**(5,927,312)**	(529,105)	(4,622,823)
Additions to property, plant and equipment	*13, 18*	**(14,862,133)**	(33,832,759)	(17,299,444)
Net cash flows used in investing activities		**(7,244,879)**	(34,751,176)	(6,432,709)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from long-term debt	*18*	**30,684,375**	8,825,000	1,500,000
Proceeds from short-term borrowing		**14,364,000**	-	-
Proceeds from issuance of undated subordinated capital securities	*21*	**-**	13,823,499	13,110,066
Distributions to undated subordinated capital securities holders	*21*	**(2,904,573)**	(1,450,688)	(723,214)
Cash dividends paid	*21*	**(3,000,000)**	(4,500,000)	(10,000,000)
Payment of short-term borrowing		**(14,364,000)**	-	-
Payments of finance lease liabilities	*6*	**(23,873,363)**	(22,280,118)	(20,123,987)
Payment of long-term debt	*18*	**(25,514,700)**	(1,373,100)	(193,200)
Net cash flows used in financing activities		**(24,608,261)**	(6,955,407)	(16,430,335)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**21,607**	392,535	(813,621)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(749,976)**	(16,062,933)	9,179,123
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**22,241,361**	38,304,294	29,125,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	*7*	**P21,491,385**	P22,241,361	P38,304,294

See Notes to the Consolidated Financial Statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, lease, develop 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's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

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

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 13, 2017.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit retirement liability which is measured at present value of the defined benefit retirement obligation.

Functional and Presentation Currency

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

Basis of Consolidation

The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services and coal mining are incorporated in the Philippines and registered with the Philippine SEC. The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as follows:

	Percentage of Ownership	
	2016	2015
Power Generation		
San Miguel Energy Corporation (SMEC)	**100**	100
South Premiere Power Corp. (SPPC)	**100**	100
Strategic Power Devt. Corp. (SPDC)	**100**	100
SMC PowerGen Inc. (SPI)	**100**	100
Limay Power Generation Corporation [(c)]	**100**	100
SMC Consolidated Power Corporation (SCPC) [(b)]	**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(i)]	**100**	100
Central Luzon Premiere Power Corp. (CLPPC) [(e)]	**100**	100
Limay Premiere Power Corp. (LPPC) [(b) (e)]	**100**	100
Mariveles Power Generation Corporation (MPGC) [(e) (g)]	**49**	100
PowerOne Ventures Energy Inc. (PVEI) [(j)]	**100**	100
Retail and Other Power-related Services		
San Miguel Electric Corp. (SMELC)	**100**	100
Albay Power and Energy Corp. (APEC)	**100**	100
SMC Power Generation Corp. (SPGC) [(k)]	**100**	100
Coal Mining		
Daguma Agro-Minerals, Inc. (DAMI) [(a)]	**100**	100
Sultan Energy Phils. Corp. (SEPC) [(a)]	**100**	100
Bonanza Energy Resources, Inc. (BERI) [(a)]	**100**	100
Others		
Mantech Power Dynamics Services Inc. (MPDSI) [(h) (l)]	**100**	100
Safetech Power Services Corp. (SPSC) [(h) (l)]	**100**	100
Ondarre Holding Corporation (OHC) [(d) (m)]	**100**	100
Golden Quest Equity Holdings Inc. (GQEHI) [(a) (e) (m)]	**100**	100
Grand Planters International, Inc. (GPII) [(f) (m)]	**100**	100

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2016.

(b) Construction of power plants on-going as of December 31, 2016.

(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2016.

(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2016.

(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2016.

(f) Acquired in September 2015.

(g) On June 16, 2016, ownership of the Parent Company was reduced to 49% due to the purchase of MPGC common shares by Meralco Powergen Corporation and Zygnet Prime Holdings, Inc., representing 49% and 2% interest in MPGC, respectively.

(h) Incorporated in 2015 and started commercial operations in 2016.

(i) On December 26, 2016, SMCPC started its commercial operations for Unit 1 of 2 x 150 Mega Watt (MW) Coal-fired Power Plant in Malita, Davao.

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

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

(l) Involved in providing local manpower services for operating and maintaining power generation facilities.

(m) For investing in land properties.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group 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.

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. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretations
The FRSC approved the adoption of a number of new and amended standards and interpretations as part of PFRS.

Amendments to Standards and Interpretations Adopted in 2016

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 1, Presentation of Financial Statements)*. The amendments clarify the following: (i) the materiality requirements apply to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function; (ii) that specific line items to be presented in the statements of financial position, statements of income and statements of comprehensive income can be disaggregated and additional guidance on subtotals to be presented in these statements; (iii) that entities have flexibility as to the order in which they present the notes to the financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statements of income.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11, Joint Arrangements).* The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Annual Improvements to PFRS Cycles 2012 - 2014* contain changes to four standards, of which Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)* is applicable to the Group. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

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

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the consolidated financial statements.

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

- Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows). The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.

  The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. When the Group first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. On initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which the following are applicable to the Group:

  - *Clarification of the Scope of the Standard (Amendments to PFRS 12, Disclosure of Interests in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

  - *Measuring an associate or joint venture at fair value (Amendments to PAS 28, Investments in Associates).* The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at Fair Value through Profit or Loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management.

  The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method. The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the company withholds in excess of the employee's tax obligation associated with the share-based payment. The amendments also clarify that the Group is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date; and (b) the difference between the carrying amount of the liability derecognized as at the modification date and the amount recognized in equity as at that date is recognized in profit or loss immediately.

  The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- PFRS 15, *Revenue from Contracts with Customers,* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration.* The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item. The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates).* 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 Assets and Financial Liabilities
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

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

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

Financial Assets
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets at FVPL, AFS financial assets and HTM investments as of December 31, 2016 and 2015.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 7, 8, 16, 27 and 28).

<u>*Financial Liabilities*</u>

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

As of December 31, 2016 and 2015, the Group has no financial liabilities at FVPL.

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.

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, finance lease liabilities and long-term debt are included under this category (Notes 17, 18, 27 and 28).

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

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

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

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

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

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

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

The Group does not have any embedded derivatives as of December 31, 2016 and 2015.

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

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

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. 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 assesses, at the reporting date, whether a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

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

- deliver cash or another financial asset to another entity;

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories
Inventories are carried at the lower of cost or net realizable value. Cost is determined using specific identification method or first-in-first-out method for materials and supplies, specific identification method or weighted average method for coal inventories and weighted average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

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

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

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

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

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

▪ *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

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

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

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

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

<u>Transactions under Common Control</u>
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

<u>Investments in Shares of Stock of Associates and Joint Ventures</u>
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but is not control or joint control over those policies.

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

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

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

Under the equity method, the investments in shares of stock of associates or joint ventures are initially recognized at cost. The carrying amount of the investments are 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 investments and are neither amortized nor individually tested for impairment.

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investments in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in shares of stock of associates or joint ventures is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investments in shares of stock of associates or joint ventures. Such impairment loss is recognized as part of "Equity in net losses of associates and joint ventures" account in the consolidated statements of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investments in shares of stock of associates or joint ventures 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 associates or joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

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

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

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

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

	Number of Years
Power plants	10 - 43
Leasehold improvements	5 - 25 or term of the lease whichever is shorter
Other equipment	2 - 15
Building	15 - 25

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

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

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

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

Intangible Assets

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

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

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

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

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

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

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

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

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

The power concession right is amortized using the straight-line method over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

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

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

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entity account for revenue and costs relating to operation services in accordance with PAS 18.

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

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

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

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

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

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

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

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

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

The amortization of mining rights will commence upon commercial operations.

<u>Deferred Exploration and Development Costs</u>
Deferred exploration and development costs comprise expenditures which are directly attributable to:

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

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

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

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

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 in the principal market for the asset or liability, or 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.

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

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

Capital Stock and Additional Paid-in Capital
Common shares. Common shares are measured at par and are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

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

Undated Subordinated Capital Securities
Undated subordinated capital securities (USCS) are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to undated subordinated capital securities.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes.

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

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

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

Others

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Dividend income is recognized when the Group's right to receive the payment is established.

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

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

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

Cost and Expense Recognition

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

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

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

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

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

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

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

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

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

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

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

Defined Benefit Cost comprise the following:

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

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

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

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

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

Foreign Currency Translations

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income.

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

<u>Assets Held for Sale</u>
Noncurrent assets, or disposal groups comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered primarily through sale rather than through continuing use.

The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn.

Property, plant and equipment and investment property once classified as held for sale are not amortized or depreciated. In addition, equity accounting of equity accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position.

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of USCS, by the weighted average number of issued and outstanding common shares during the period.

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

As of December 31, 2016, 2015 and 2014, the Group has no dilutive equity instruments as disclosed in Note 26 to the consolidated financial statements.

Operating Segments

The Group’s operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. The Chief Executive Officer (the chief operating decision maker; CODM) reviews management reports on a regular basis.

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

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

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

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

4. Use of Judgments, Estimates and Assumptions

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

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

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 6 and 13).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P170,089,536 and P179,193,193 as of December 31, 2016 and 2015, respectively (Note 6).

The combined carrying amounts of power plants under finance lease amounted to P177,759,894 and P182,946,297 as of December 31, 2016 and 2015, respectively (Note 13).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Notes 6).

Rent income recognized in the consolidated statements of income amounted to P21,147, P28,104 and P18,434 in 2016, 2015 and 2014, respectively (Notes 6 and 23).

Rent expense recognized in the consolidated statements of income amounted to P351,091, P360,091 and P115,849 in 2016, 2015 and 2014, respectively (Notes 6 and 22).

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

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation. Management determined that the consideration receivable, in exchange for the fulfillment of the Group's obligation under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. Judgment was further exercised by management in determining the costs components of acquiring the right (Notes 3, 6 and 15).

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

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

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

Asset Acquisition and Business Combinations. In 2015, the Group acquired land and building, through the acquisition of a legal entity, for purposes of power plant expansion. At the time of acquisition, the Group considered whether the acquisition represented an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided.

The acquired land and building were classified as part of property, plant and equipment. The Group had determined that the acquisition did not represent a business since there were no integrated set of activities acquired in addition to the property and the Group has no obligation to perform ancillary services (Note 13).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 29).

<u>Estimates and Assumptions</u>
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 28.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P2,451,818 and P1,241,487 as of December 31, 2016 and 2015, respectively. The carrying amount of trade and other receivables amounted to P22,342,846 and P18,473,625 as of December 31, 2016 and 2015, respectively (Note 8).

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

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

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2016 and 2015.

The carrying amount of inventories amounted to P2,272,289 and P1,263,218 as of December 31, 2016 and 2015, respectively (Note 9).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P246,488,027 and P255,452,996 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P36,822,438 and P33,916,821 as of December 31, 2016 and 2015, respectively (Note 13).

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

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the 5-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable, and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and 2/3 of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

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

The Group’s mining activities are all in the preparatory stages as of December 31, 2016. All related costs and expenses from the mining activities are currently deferred as exploration and development costs, which will be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2016 and 2015.

Deferred exploration and development costs amounted to P693,379 and P689,548 as of December 31, 2016 and 2015, respectively (Note 14).

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

Intangible assets with finite useful lives such as mining rights and computer software amounted to P1,874,279 and P1,896,886 as of December 31, 2016 and 2015, respectively (Note 15).

Intangible assets with indefinite useful life amounted to P8,866 as of December 31, 2016 and 2015 (Note 15).

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

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

The carrying amount of power concession right amounted to P688,974 and P507,497 as of December 31, 2016 and 2015, respectively (Notes 6 and 15).

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

The carrying amount of goodwill amounted to P8,866 as of December 31, 2016 and 2015 (Note 15).

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

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

The carrying amount of goodwill and mining rights as a result of the business combination amounted to P8,866 and P1,719,726, respectively, as of December 31, 2016 and 2015 (Note 15).

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

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 24).

Deferred tax assets from temporary differences amounted to P2,955,570 and P2,745,943 as of December 31, 2016 and 2015, respectively (Note 24).

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

The Group assessed that its non-financial assets are not impaired as of December 31, 2016 and 2015.

The combined carrying amounts of investments and advances, property, plant and equipment, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P265,990,113 and P269,159,864 as of December 31, 2016 and 2015, respectively (Notes 12, 13, 14 and 15).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 20 to the consolidated financial statements and include discount rate and salary increase rate.

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

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

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

The present value of defined benefit retirement obligation amounted to P69,364 and P45,657 as of December 31, 2016 and 2015, respectively (Note 20).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling, installing and restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2016 and 2015.

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 CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the preparatory stage of mining activities (Note 14). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2016 and 2015, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment except investments and advances, intangible assets and goodwill and deferred tax assets. Segment liabilities include all operating liabilities except long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

Inter-segment Transactions
The Group's inter-segment sales are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. 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 agreements, concession agreement and other power-related service agreements (Note 6), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	2016	2015	2014
Manila Electric Company (Meralco)	**P39,565,977**	P40,889,098	P47,233,747
WESM	**4,153,980**	6,217,243	9,622,839

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

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			Retail and Other Power-related Services			Coal Mining			Others			Eliminations			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales																		
External	**P72,250,309**	P73,849,465	P80,080,157	**P5,722,121**	P3,657,226	P4,213,433	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P77,972,430**	P77,506,691	P84,293,590
Inter-segment	**8,964,899**	6,769,834	4,872,675	**14,629**	-	-	**-**	-	-	**132,000**	-	-	**(9,111,528)**	(6,769,834)	(4,872,675)	**-**	-	-
	81,215,208	80,619,299	84,952,832	**5,736,750**	3,657,226	4,213,433	**-**	-	-	**132,000**	-	-	**(9,111,528)**	(6,769,834)	(4,872,675)	**77,972,430**	77,506,691	84,293,590
Cost and Expenses																		
Cost of power sold	**48,198,409**	51,933,914	56,304,969	**5,711,781**	3,723,643	4,053,848	**-**	-	-	**-**	-	-	**(8,907,750)**	(6,757,630)	(4,872,675)	**45,002,440**	48,899,927	55,486,142
Operating expenses	**6,111,655**	4,791,985	2,697,961	**849,499**	226,397	37,204	**28,495**	17,831	23,919	**1,599,204**	1,294,215	767,846	**(2,349,203)**	(1,426,293)	(615,000)	**6,239,650**	4,904,135	2,911,930
	54,310,064	56,725,899	59,002,930	**6,561,280**	3,950,040	4,091,052	**28,495**	17,831	23,919	**1,599,204**	1,294,215	767,846	**(11,256,953)**	(8,183,923)	(5,487,675)	**51,242,090**	53,804,062	58,398,072
Segment Result	**P26,905,144**	P23,893,400	P25,949,902	**(P824,530)**	(P292,814)	P122,381	**(P28,495)**	(P17,831)	(P23,919)	**(P1,467,204)**	(P1,294,215)	(P767,846)	**P2,145,425**	P1,414,089	P615,000	**P26,730,340**	P23,702,629	P25,895,518
Interest income																**200,502**	414,444	549,977
Interest expense and other financing charges																**(12,354,229)**	(13,130,252)	(13,168,470)
Equity in net losses of associates and joint ventures																**(294,795)**	(528,445)	(22,345)
Gain on sale of power plant and other equipment																**116,357**	-	-
Other income (charges) - net																**(6,881,754)**	(5,926,050)	68,225
Income tax expense - net																**(3,365,759)**	(2,703,408)	(2,693,423)
Consolidated Net Income																**P4,150,662**	P1,828,918	P10,629,482

	For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Other Information												
Segment assets	**P300,511,384**	P297,302,968	**P2,765,423**	P2,773,437	**P734,328**	P749,318	**P34,520,658**	P45,618,031	**(P26,355,752)**	(P31,006,033)	**P312,176,041**	P315,437,721
Investments and advances - net	**9,832,438**	4,566,249	**196,723**	192,012	**-**	-	**52,595,284**	43,451,916	**(46,378,991)**	(37,597,240)	**16,245,454**	10,612,937
Intangible assets and goodwill - net											**2,572,119**	2,413,249
Deferred tax assets											**2,955,570**	2,745,943
Consolidated Total Assets											**P333,949,184**	P331,209,850
Segment liabilities	**P232,894,743**	P240,770,768	**P3,704,565**	P2,788,300	**P776,554**	P763,125	**P751,230**	P1,613,602	**(P30,084,673)**	(P33,751,269)	**P208,042,419**	P212,184,526
Long-term debt											**66,323,726**	58,607,861
Income tax payable											**127,198**	99,275
Deferred tax liabilities											**4,785,217**	3,882,930
Consolidated Total Liabilities											**P279,278,560**	P274,774,592
Capital expenditures	**P14,849,968**	P31,066,140	**P -**	P2,893	**P -**	P48	**P12,165**	P2,763,740			**P14,862,133**	P33,832,821
Depreciation and amortization of property, plant and equipment and intangible assets	**6,201,578**	6,469,103	**25,639**	21,394	**15,229**	15,136	**99,485**	34,180			**6,341,931**	6,539,813
Noncash items other than depreciation*	**7,755,076**	6,198,795	**779,891**	164,633	**(3)**	-	**769,731**	2,051,798			**9,304,695**	8,415,226

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

6. Significant Agreements and Lease Commitments

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

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

Subsidiary	Power Plant	Location
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 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 as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P20,477,903, P23,224,178 and P30,775,896 in 2016, 2015 and 2014, respectively. SMEC and SPDC renewed their performance bonds in United States dollar (US$) amounting to US$58,187 and US$20,305 which will expire on November 3, 2017 and January 25, 2017, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2018.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60,000 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 29).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P9,667,662, P10,212,753 and P10,711,071 in 2016, 2015 and 2014, respectively.

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

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

2015	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$250,209	P11,774,823	P11,980,712	P23,755,535
More than 1 year and not later than 5 years	1,071,953	50,446,106	51,333,916	101,780,022
Later than 5 years	1,118,634	52,642,925	53,617,024	106,259,949
	2,440,796	114,863,854	116,931,652	231,795,506
Less: Future finance charges on finance lease liabilities	383,180	18,032,425	34,569,888	52,602,313
Present values of finance lease liabilities	US$2,057,616	P96,831,429	P82,361,764	P179,193,193

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

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

2015	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$197,094	P9,275,262	P7,271,501	P16,546,763
More than 1 year and not later than 5 years	767,797	36,132,517	25,606,142	61,738,659
Later than 5 years	1,092,725	51,423,650	49,484,121	100,907,771
	US$2,057,616	P96,831,429	P82,361,764	P179,193,193

b. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and SCPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. PEMC's market fees charged to SMEC, SPDC and SPPC recognized in the consolidated statements of income amounted to P160,669, P219,681 and P233,701 in 2016, 2015 and 2014, respectively (Note 22).

Market fees charged to SCPC during its testing and commissioning phase, recognized as part of CPIP under the "Property, plant and equipment" account in the consolidated statements of financial position, amounted to P531 as of December 31, 2016 (Note 13).

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2017, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SPI, and SMCPC have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, particularly electric cooperatives and industrial customers, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

SMEC, SPPC and SPDC can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P7,836,564, P8,330,550 and P6,045,468 in 2016, 2015 and 2014, respectively.

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

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

Revenue from sale of capacity of the San Roque Power Plant amounted to P758,134, P1,274,893 and P1,488,437 in 2016, 2015 and 2014, respectively, and was recognized as part of "Sale of power" account in the consolidated statements of income.

e. Coal Supply Agreements

SMEC has supply agreements with various coal suppliers for the Sual Power Plant's coal requirements.

f. Operations and Maintenance (O&M) Services Agreement

In exchange for the O&M services rendered by Petron Corporation (Petron), an entity under common control, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of its 4 x 35 MW Limay Co-generation Solid Fuel-fired Power Plant (Limay Co-gen Power Plant). The agreement is effective for 25 years from September 2013 until 2038 and was terminated upon sale of SPI's power plant to Petron on December 23, 2016.

g. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM, SMEC or other generators. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

h. Distribution Wheeling Service (DWS) Agreements

SMELC and SCPC, related to its Retail Electricity Supplier (RES) licenses, entered into DWS Agreements with certain Distribution Utilities (DU) for the conveyance of electricity through its distribution systems in order to meet the demand of the Contestable Customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to its customers as mandated by ERC thru the "Single-Billing Policy".

i. Lease Agreements

Group as Lessee

i. The Group has operating lease agreements with San Miguel Properties, Inc., an entity under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.

ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVRC), an entity under common control. The existing lease agreement is for a 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3.0% per annum escalation rate for the 4 years following the negotiation under the lease terms. Pursuant to the sale of power plant to Petron, all agreements between SPI and Petron and its subsidiaries were terminated effective December 23, 2016.

iii. SMEC entered into a lease agreement with Challenger Aero Air Corporation (Challenger), an entity under common control, for the lease of certain aircrafts for a period of 1 year from October 1, 2014 to September 30, 2015. The lease agreement was pre-terminated on April 30, 2015.

   Subsequently, SMEC entered into a new lease agreement with Challenger for the lease of the same aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016. The lease agreement was renewed from May 1, 2016 to April 30, 2017.

iv. In November 2015, SCPC leased parcels of land from NVRC for the construction of 2 x 150 MW Coal-fired Power Plant (Limay Coal-fired Power Plant - Phase I) and ash dump facility. This is covered by two lease agreements, each having an initial term of 25 years with an option to renew for a further 25 years. The agreements contain a clause allowing the annual escalation adjustments of rental rates starting on certain anniversary dates.

v. On December 7, 2015, LPPC leased a parcel of land from NVRC for the construction of its 2 x 150 MW Coal-fired Power Plant (Limay Coal-fired Power Plant - Phase II) for a period of 25 years from the effective date. LPPC has the option to renew this lease for another 25 years. The rent shall be increased annually by 6.0% starting from the second anniversary of the lease execution.

vi. DAMI leases a parcel of land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The rent is subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P402 and P405 as of December 31, 2016 and 2015, respectively (Note 14).

vii. In 2016, SMCPC entered into an agreement with Kyron Landholdings Inc. for the sub-lease of a parcel of land for the construction, erection and installation of its 2 x 150 MW Coal-fired Power Plant in Malita, Davao (Malita Coal-fired Power Plant). The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. Beginning January 1, 2018 until the end of the term, the rental shall be increased by 5.1% per annum.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under "Trade and other receivables - net" or "Prepaid expenses and other current assets" accounts in the consolidated statements of financial position (Notes 8 and 10).

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

	2016	2015
Not later than 1 year	**P119,335**	P63,593
More than 1 year and not later than 5 years	**244,067**	138,776
Later than 5 years	**1,871,061**	1,381,648
	P2,234,463	P1,584,017

Rent expense recognized in the consolidated statements of income amounted to P351,091, P360,091 and P115,849 in 2016, 2015 and 2014, respectively (Note 22).

Group as Lessor

i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties. The agreement expired on December 31, 2016.

ii. In May 2011, GPII entered into an agreement with Limay Energen Corporation (LEC), an entity under common control, to lease certain portions of 3 parcels of land located in Limay, Bataan. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration and a 3.0% escalation rate of the rental every year from signing of the contract. LEC executed a deed of assignment on July 19, 2012, assigning all rights and obligations to the leased area to Petron. Petron is the assignee for the remaining period of the lease effective June 1, 2012. The agreement was terminated effective June 1, 2015.

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

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

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

	2016	2015
Not later than 1 year	**P6,007**	P46,517
More than 1 year and not later than 5 years	**21,892**	183,394
Later than 5 years	**-**	20,204
	P27,899	P250,115

Rent income recognized under the “Miscellaneous income (charges)” account in “Other Income (Charges)” account in the consolidated statements of income amounted to P21,147, P28,104, and P18,434 in 2016, 2015 and 2014, respectively (Note 23).

j. Concession Agreement

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

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); ii) if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO formally turned over the operations to APEC on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P386,083, and P159,086 as of December 31, 2016 and 2015, respectively. Interest expense on concession payable is included as part of “Interest expense and other financing charges” account in the consolidated statements of income amounted to P6,127, P6,254 and P4,769 in 2016, 2015 and 2014, respectively. Amortization of concession assets recognized in the “Depreciation and amortization” account in the consolidated statements of income amounted to P45,520, P21,296 and P14,610 in 2016, 2015 and 2014, respectively.

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

	2016	2015
Not later than 1 year	**P2,407**	P2,273
More than 1 year and not later than 5 years	**11,136**	10,515
Later than 5 years	**91,083**	94,110
	P104,626	P106,898

Power concession assets consist of:

	Concession Fee	Completed Projects/Others	Asset Under Construction	Total
Cost				
January 1, 2015	P384,317	P111,995	P -	P496,312
Additions	-	47,091	-	47,091
December 31, 2015	384,317	159,086	-	543,403
Additions	-	72,824	154,173	226,997
December 31, 2016	**384,317**	**231,910**	**154,173**	**770,400**
Accumulated Depreciation and Amortization				
January 1, 2015	12,811	1,799	-	14,610
Additions	15,373	5,923	-	21,296
December 31, 2015	28,184	7,722	-	35,906
Additions	15,373	30,147	-	45,520
December 31, 2016	**43,557**	**37,869**	**-**	**81,426**
Carrying Amount				
December 31, 2015	P356,133	P151,364	P -	P507,497
December 31, 2016	**P340,760**	**P194,041**	**P154,173**	**P688,974**

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P226,997, P47,091 and P111,995 in 2016, 2015 and 2014, respectively (Note 23).

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2016**	2015
Cash in banks and on hand		**P2,089,297**	P4,390,785
Short-term investments		**19,402,088**	17,850,576
	27, 28	**P21,491,385**	P22,241,361

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income from cash and cash equivalents amounted to P176,681, P261,338 and P356,852 in 2016, 2015 and 2014, respectively.

8. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2016**	2015
Trade		**P12,269,984**	P12,415,742
Non-trade		**6,613,459**	5,664,269
Amounts owed by related parties	*6, 19*	**5,911,221**	1,635,101
		24,794,664	19,715,112
Allowance for impairment losses	*4*	**2,451,818**	1,241,487
	27, 28	**P22,342,846**	P18,473,625

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 VAT on the sale of power collectible from customers.

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

	2016	2015
Balance at beginning of year	**P1,241,487**	P866,686
Impairment losses during the year	**1,210,451**	374,801
Amounts written-off	**(120)**	-
Balance at end of year	**P2,451,818**	P1,241,487

Impairment losses are recognized in profit or loss as follows:

	Note	**2016**	2015	2014
Operating expenses	*22*	**P958,784**	P142,658	P144,393
Other income (charges) - net	*23*	**251,667**	232,143	-
		P1,210,451	P374,801	P144,393

The aging of trade and other receivables as of December 31 are as follows:

	2016				2015			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P5,576,247**	**P1,031,133**	**P5,282,075**	**P11,889,455**	P5,361,249	P76,388	P1,560,903	P6,998,540
Past due:								
1-30 days	**671,466**	**73,200**	**8,900**	**753,566**	561,693	50,077	16,717	628,487
31-60 days	**505,682**	**62,467**	**27,134**	**595,283**	372,998	57,261	4,994	435,253
61-90 days	**201,448**	**10,207**	**31,563**	**243,218**	201,639	2,929,235	-	3,130,874
Over 90 days	**5,315,141**	**5,436,452**	**561,549**	**11,313,142**	5,918,163	2,551,308	52,487	8,521,958
	P12,269,984	**P6,613,459**	**P5,911,221**	**P24,794,664**	P12,415,742	P5,664,269	P1,635,101	P19,715,112

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due 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.

Non-trade receivables include the following:

a. Due from PSALM amounting to US$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court (RTC) of Mandaluyong City (Note 29).

b. As of December 31, 2016 and 2015, SMEC has receivables for the cost of fuel, market fees, coal and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P32,409 and P33,658. Likewise, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P1,258,519 and P1,083,353 as of December 31, 2016 and 2015, respectively. The issue on excess capacity is subject of ongoing cases (Note 29).

c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

   On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2015 and 2014, HCML and Caason paid a total amount of P107,086 and P119,841, respectively, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to nil, P105,735, and P118,824 in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, total outstanding receivables from HCML (net of allowance for impairment losses) amounted to P7,145 and P203,099, respectively.

d. The balance mainly pertains to receivables from customers which will be remitted to the Government upon collection.

9. Inventories

Inventories at cost consist of:

	Note	**2016**	2015
Coal	*6*	**P2,120,657**	P1,079,086
Fuel oil	*19*	**84,885**	67,599
Materials and supplies		**53,322**	109,820
Other consumables		**13,425**	6,713
		P2,272,289	P1,263,218

There were no inventory write-downs to net realizable value for the years ended December 31, 2016 and 2015. Inventories charged to cost of power sold amounted to P10,046,687, P10,376,590 and P11,945,280 in 2016, 2015 and 2014, respectively.

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2016**	2015
Input VAT		**P12,398,635**	P10,960,202
Prepaid tax		**3,735,642**	2,253,885
Prepaid rent and others	*6, 18*	**1,548,743**	1,854,660
		P17,683,020	P15,068,747

Input VAT consists of input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 17).

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

Prepaid rent and others pertain to the following:

a. Prepaid rent of the Group from various operating lease agreements amounted to P39,044 and P61,961 as of December 31, 2016 and 2015, respectively (Note 6).

b. PSALM monthly fee outage credits pertain to the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2016 and 2015.

c. Professional services related to project financing of SCPC (Note 18).

11. Assets Held For Sale

On September 15, 2016, the BOD of SPI approved the plan to sell certain machinery and equipment. Accordingly, the carrying amount, which is the fair value, of the other equipment amounting to P184,324 was reclassified as “Assets held for sale” account in the consolidated statements of financial position (Note 13). Efforts to sell the machinery and equipment have started and the sale is expected to be completed in 2017.

12. Investments and Advances

Investments and advances consist of:

	2016	2015
Investments in Shares of Stock of Associates and Joint Ventures		
Cost		
Balance at beginning of year	**P2,074,052**	P2,074,051
Additions/Reclassifications	**6,509,410**	1
Balance at end of year	**8,583,462**	2,074,052
Accumulated Equity in Net Losses		
Balance at beginning of year	**(592,164)**	(63,719)
Equity in net losses during the year	**(293,113)**	(526,463)
Adjustment to equity in net losses in prior year	**(1,682)**	(1,982)
Balance at end of year	**(886,959)**	(592,164)
	7,696,503	1,481,888
Advances	**8,548,951**	9,131,049
	P16,245,454	P10,612,937

Advances pertain to deposits made for future investment in land holding companies and power-related expansion projects.

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

a. Investment in shares of stock of associates

    i. Olongapo Electricity Distribution Company, Inc. (OEDC)

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

    Subscriptions payable amounted to P28,101 as of December 31, 2016 and 2015 (Note 19).

    ii. Mariveles Power Generation Corp. (MPGC)

    On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco, and Zygnet Prime Holdings, Inc. (Zygnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, the Parent Company now holds 49% of the outstanding capital stock of MPGC while MGen and Zygnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of the Parent Company prior to the subscription of MGen and Zygnet. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

    On July 13, 2016, the Parent Company subscribed to 9,643,200 shares, representing 49% of the total shares subscribed by all shareholders out of the increase in the authorized capital stock of MPGC, at the subscription price of P100 per share.

On January 9, 2017, the SEC approved the increase in the authorized capital stock of MPGC.

The table below summarizes the financial information of investment in shares of stock of associates which is accounted for using the equity method:

December 31, 2016 (Unaudited)

	OEDC	**MPGC**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P331,180**	**P123,163**
Noncurrent assets	**1,191,043**	**1,841,417**
Current liabilities	**(639,298)**	**(445)**
Noncurrent liabilities	**(353,812)**	**-**
Net assets	**P529,113**	**P1,964,135**
Revenue	**P1,329,636**	**P -**
Net income (losses)/total comprehensive income (losses)	**P18,267**	**(P12,009)**
Share in net income (losses)/total comprehensive income (losses)	**P6,393**	**(P5,851)***
Carrying amount of investment	**P196,723**	**P958,719**

**The Group's share in net losses/ total comprehensive losses for the period from June 16, 2016 to December 31, 2016 of MPGC.*

December 31, 2015 (Audited)

	OEDC
Country of Incorporation	Philippines
Current assets	P367,191
Noncurrent assets	1,157,037
Current liabilities	(901,666)
Noncurrent liabilities	(114,199)
Net assets	P508,363
Revenue	P1,288,435
Net income/total comprehensive income	P2,940
Share in net income/total comprehensive income	P1,029
Carrying amount of investment	P192,012

b. Investments in shares of stock of joint ventures

i. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

The Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock.

Subsequently, Angat Hydro and KWPP each issued shares in favor of nominee directors of PVEI and K-Water to complete their respective shareholding interest.

In accordance with the entry of PVEI into Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3.0% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015. The obligation to pay support fee terminated on July 15, 2016 with the refinancing of the bridge loan facility.

On July 11, 2016, PVEI, subscribed to 27,724,200 shares, out of the increase in the authorized capital stock of Angat Hydro, at the subscription price of P200 per share. Total subscription amounting to P5,544,840 represents PVEI's 60% share in the additional equity infusion required by Angat Hydro from its existing stockholders as of date pursuant to Angat Hydro's project financing requirements.

Angat Hydro

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2016 (Unaudited)

	Angat Hydro	**KWPP**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P2,784,190**	**P3,762**
Noncurrent assets	**19,302,522**	**20,684**
Current liabilities	**(13,339,970)**	**(8,274)**
Noncurrent liabilities	**(13,601)**	**(17,583)**
Net assets (liabilities)	**P8,733,141**	**(P1,411)**
Revenue	**P1,231,068**	**P -**
Net losses/total comprehensive losses	**(P489,425)**	**(P572)**
Share in net losses/total comprehensive losses	**(P293,655)**	**(P343)**
Carrying amount of investment	**P6,541,061**	**P -**

December 31, 2015 (Audited)

	Angat Hydro	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P1,144,068	P2,049
Noncurrent assets	19,717,161	19,651
Current liabilities	(20,862,372)	(5,023)
Noncurrent liabilities	(17,693)	(17,583)
Net liabilities	(P18,836)	(P906)
Revenue	P1,248,800	P -
Net losses/total comprehensive losses	(P881,958)	(P352)
Share in net losses/total comprehensive losses	(P529,174)	(P211)
Carrying amount of investment	P1,289,876	P -

Unrecognized shares in net losses in excess of the Group's interest in KWPP amounted to P343 and P211 on December 31, 2016 and 2015, respectively.

Investment in shares of stock of subsidiaries

i. *Acquisition of OHC and GPII*
On February 10, 2015, the Parent Company acquired 100% outstanding capital stock of OHC for a total consideration amount of P588,050, inclusive of transaction costs. OHC is engaged in the business of acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds; to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances; and to carry on, provide support and manage the general business of any corporation, entity or joint venture.

On September 4, 2015, the Parent Company acquired 100% outstanding capital stock of GPII for a total consideration amount of P1,820,972, inclusive of transaction costs. GPII's primary purpose is to carry on and engage in the business of developing and converting the properties in Limay, Bataan into a multi-use industrial park with all the necessary amenities, in joint venture with any person or entity.

The following summarizes the acquired net assets from OHC and GPII at the acquisition date:

	OHC	GPII
Current assets	P37,609	P126,317
Noncurrent assets	550,441	2,071,882
Current liabilities	-	(5,940)
Noncurrent liabilities	-	(371,287)
Net assets	P588,050	P1,820,972

In accordance with criteria set out in paragraph 2 of PFRS 3 and based on PIC Question and Answer No. 2011 - 06 PFRS 3 (2008), and PAS 40, Investment Property - *Acquisition of Investment Properties - Asset Acquisition or Business Combination,* the Parent Company is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3.

ii. SCPC

In 2013, SCPC started the construction of its 2 x 150 MW Limay Coal-fired Power Plant Phase I. On November 4, 2016, SCPC started the testing and commissioning phase of Unit 1 of the power plant.

iii. SMCPC

In 2013, SMCPC started the construction of its 2 x 150 MW Malita Coal-fired Power Plant. On December 26, 2016 SMCPC started its commercial operations following the completion of Unit 1 of the power plant.

iv. SPI

SPI acquired from Petron in 2013 the 2 x 35 MW Limay Co-gen Power Plant and all other pertinent machineries, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Limay Co-gen Power Plant in Bataan.

On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant in favor of Petron.

SPI closed the sale of the power plant and all pertinent assets to Petron effective December 23, 2016.

v. PVEI

In January 2017, PVEI and K-Water granted short-term loans amounting to US$31,800 and US$21,200, respectively, to Angat Hydro, collectible in full plus a 4.50% interest on April 30, 2017 or at a certain date in accordance with the Terms and Conditions of the Loan Agreement dated January 3, 2017.

13. Property, Plant and Equipment

Property, plant and equipment consists of:

	Power Plants (Note 6)	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2015	P226,788,832	P346,648	P1,158,076	P5,831,097	P21,413,097	P255,537,750
Additions	-	2,649,691	159,223	10,346	31,013,561	33,832,821
Disposals	-	-	(754)	-	-	(754)
December 31, 2015	226,788,832	2,996,339	1,316,545	5,841,443	52,426,658	289,369,817
Additions	10,654,500	1,054,299	730,036	31,311	2,391,987	14,862,133
Disposals/Reclassifications	(12,469,072)	(332,055)	(978,469)	(5,831,097)	(1,126,468)	(20,737,161)
Transfers to Assets Held for Sale	-	-	-	-	(184,324)	(184,324)
December 31, 2016	**224,974,260**	**3,718,583**	**1,068,112**	**41,657**	**53,507,853**	**283,310,465**
Accumulated Depreciation and Amortization						
January 1, 2015	26,930,663	46,231	161,702	265,831	-	27,404,427
Additions	6,030,650	44,848	135,629	301,958	-	6,513,085
Disposals	-	-	(691)	-	-	(691)
December 31, 2015	32,961,313	91,079	296,640	567,789	-	33,916,821
Additions	5,826,594	51,000	141,779	229,897	-	6,249,270
Disposals/Reclassifications	(2,221,036)	(99,617)	(231,534)	(791,466)	-	(3,343,653)
December 31, 2016	**36,566,871**	**42,462**	**206,885**	**6,220**	**-**	**36,822,438**
Carrying Amount						
December 31, 2015	P193,827,519	P2,905,260	P1,019,905	P5,273,654	P52,426,658	P255,452,996
December 31, 2016	**P188,407,389**	**P3,676,121**	**P861,227**	**P35,437**	**P53,507,853**	**P246,488,027**

a. The combined carrying amounts of power plants under finance lease amounted to P177,759,894 and P182,946,297 as of December 31, 2016 and 2015, respectively (Note 4).

b. On September 15, 2016, the BOD of the Parent Company and SPI approved the sale of its 4 x 35 MW Limay Co-gen Power Plant located in Petron Bataan Refinery in favor of Petron. Accordingly, the carrying amount of certain property, plant and equipment, amounting to P18,093,254 as of September 30, 2016 were reclassified to "Assets held for sale" account (Note 11). SPI recognized impairment loss of P323,788 at initial classification to measure its assets held for sale at lower of their carrying amount and fair value less costs to sell (Note 23).

   On October 28, 2016, SPI signed an agreement with Petron for the sale of the power plant and all pertinent assets, assignment of contracts to Petron, and the transfer of all remaining inventories, tools, supplies and other working capital necessary for the operation and maintenance of the power plant, among others.

   Effective December 23, 2016, SPI closed the sale of the power plant to Petron for a total consideration of P20,029,983 (inclusive of tax), payable based on the terms of the agreement. Consequently, gain of P114,447 was recognized on the sale and presented as part of "Gain on sale of property, plant and equipment" account in the consolidated statements of income.

   As of December 31, 2016, SPI received P15,966,458 as initial payment, and the balance of the receivable of P4,063,525 was included under "Trade and other receivables" account in the consolidated statements of financial position (Notes 8 and 19).

   Pursuant to the sale of the power plant, all SPI agreements mentioned in Note 6 were terminated effective December 23, 2016.

   As of December 31, 2016, the remaining assets held for sale consist of machineries and equipment to be sold to related parties (Note 11).

c. Additions to building, land and leasehold improvements and other equipment include acquisition of assets of OHC and GPII for the Group's power plant expansion projects.

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

e. Capital projects in progress pertains to the following:

   i. Project of SMCPC for the construction of 2 x 150 MW (Units 1 and 2) Malita Coal-fired Power Plant.

      Following the completion of Unit 1 and the ERC grant of a Provisional Authority to Operate in favor of SMCPC in October 2016, all CPIP costs pertaining to Unit 1 were reclassified to the appropriate property, plant and equipment account.

   ii. Projects of SCPC and LPPC for the construction of the Limay Coal-fired Power Plants Phase I and II.

   iii. Plant optimization and pumped-storage hydropower projects of SPDC.

Depreciation and amortization related to property, plant and equipment are recognized in profit or loss as follows:

	Note	2016	2015	2014
Cost of power sold		**P6,139,882**	P6,445,102	P6,129,256
Operating expenses	*22*	**109,388**	67,983	43,774
		P6,249,270	P6,513,085	P6,173,030

Total depreciation and amortization recognized in the consolidated statements of income include annual amortization of capitalized interest amounting to P10,020, P13,360 and P4,453 in 2016, 2015 and 2014, respectively.

The Group has interest amounting to P610,707, P105,549 and P254,539 which were capitalized in 2016, 2015 and 2014, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 3.88% to 6.29% and from 6.06% to 6.29% in 2016 and 2015, respectively. The unamortized capitalized borrowing costs amounted to P627,126 and P446,789 as of December 31, 2016 and 2015, respectively (Note 18).

14. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	2016	2015
Balance at beginning of year	**P689,548**	P671,783
Additions	**3,831**	17,765
Balance at end of year	**P693,379**	P689,548

In 2010, SMEC acquired DAMI, SEPC and BERI resulting in the recognition of mining rights of P1,719,726 (Notes 4 and 15).

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato and consists of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2016.

SEPC has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2016, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2016.

Status of Operations
In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On December 5, 2016, DAMI, SEPC and BERI requested for moratorium extension of work commitments. DOE in return required the 3 mining companies to submit supplemental information which the latter complied on December 27, 2016.

As of December 31, 2016, DAMI, SEPC and BERI are in the preparatory stages of its mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management's assessment, mining rights is not impaired since the recoverable amount of mining rights still exceeds its carrying amount as of December 31, 2016 and 2015.

15. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	Note	**2016**	2015
Mining rights	*14*	**P1,719,726**	P1,719,726
Power concession assets - net	*4, 6*	**688,974**	507,497
Computer software - net		**154,553**	177,160
Goodwill		**8,866**	8,866
		P2,572,119	P2,413,249

Goodwill
In November 2009 and March 2010, the Parent Company acquired 60% ownership interest in SMEC and SPDC. As a result of these transactions, the Parent Company recognized goodwill amounting to P8,349 and P517, respectively.

Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2016 and 2015.

Computer Software

The movements in computer software are as follows:

	Note	2016	2015
Cost			
Balance at beginning of year		**P184,377**	P113,733
Additions		**44,994**	70,644
Balance at end of year		**229,371**	184,377
Accumulated Amortization			
Balance at beginning of year		**7,217**	1,786
Amortization	*22*	**67,601**	5,431
Balance at end of year		**74,818**	7,217
		P154,553	P177,160

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2016	2015
Restricted cash	*27, 28*	**P663,820**	P1,311,740
Amounts owed by related parties	*19, 27, 28*	**227,394**	253,812
Deferred input VAT - net of current portion		**84,876**	682,674
Noncurrent receivables	*27, 28*	**44,681**	-
		P1,020,771	P2,248,226

Restricted cash comprises: (a) the amount received from PEMC totaling to P475,057 representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, which SMEC consigned with the RTC of Pasig City (Note 29); (b) APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P188,763 and P102,870 as of December 31, 2016 and 2015, respectively; and (c) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank, as part of the provisions in SPI's Facility Agreement (Note 18) totaling to P1,208,870 as of December 31, 2015. As of December 31, 2016, the remaining balance of SPI's restricted cash amounting to P4,088 was reclassified under "Cash and cash equivalents," due to the prepayment of its outstanding long-term debt in December 2016.

Amounts owed by related parties mainly pertains to loan granted by SPGC to OEDC which is collectible in equal monthly payments of principal and interest, initially pegged at 4.73% and subject to change every 6 months. The equal monthly payments of OEDC shall be made on the first day of each month commencing in January 2017 until December 2024 (Note 19).

The deferred input VAT as of December 31, 2015 mainly pertains to the remaining input VAT on the purchase of power plant from Petron in 2013, which was claimed against output VAT in 2016 (Note 17).

17. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2016**	2015
Trade	*6*	**P11,914,211**	P12,552,148
Non-trade		**19,125,230**	14,840,406
Output VAT		**5,569,399**	4,057,706
Amounts owed to related parties	*19*	**633,436**	653,900
Accrued interest	*6, 18*	**283,724**	493,897
Withholding taxes		**203,415**	242,993
	27, 28	**P37,729,415**	P32,841,050

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

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes. Power rate adjustments include the adjustments in November and December 2013 sale of power to WESM amounting to nil and P563,587 as of December 31, 2016 and 2015, respectively (Note 29).

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 8).

18. Long-term Debt

Long-term debt consists of:

	Note	**2016**	2015
Bonds payable *(a)*		**P15,000,000**	P14,118,000
Less debt issue costs		**157,437**	4,512
		14,842,563	14,113,488
Loans payable *(b)*		**52,670,304**	45,175,700
Less debt issue costs		**1,189,141**	681,327
		51,481,163	44,494,373
	27, 28	**66,323,726**	58,607,861
Less current maturities		**1,040,690**	15,647,244
		P65,283,036	P42,960,617

a. Bonds Payable

i. US Dollar-denominated Bonds

On January 28, 2011, the Parent Company carried out a US$300,000, 7%, 5-year note (the "Bonds Payable") issued under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured Bonds Payable is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the Bonds Payable contain a negative pledge provision with certain limitations on the ability of Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of "Asset Sale", "Material Subsidiary", "Non-Recourse Project Level Indebtedness", "Permitted Security Interest" and "Project Subsidiaries" and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

On January 14, 2016, the Parent Company availed of a US$300,000 six-month term loan (the "Short-Term Loan") as bridge financing with a local bank for the redemption of the Bonds Payable that matured on January 26, 2016.

ii. Peso-denominated Bonds

On July 11, 2016, the Parent Company issued and listed in the Philippine Dealing and Exchange Corp. (PDEX) fixed rate Philippine peso-denominated bonds (the "Bonds" or "Offer") with an aggregate principal amount of P15,000,000. The Bonds were issued at the issue price of 100% of face value in three series: Series A Bonds, Series B Bonds and Series C Bonds.

The terms and interest rate of the bonds are as follows:

	Term	Interest Rate Per Annum
Series A Bonds	five (5) years, due 2021	4.3458%
Series B Bonds	seven (7) years, due 2023	4.7575%
Series C Bonds	ten (10) years, due 2026	5.1792%

Interest on the Bonds shall be payable quarterly in arrears starting on October 11, 2016, for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds of the Offer was utilized primarily by the Parent Company to refinance the Short-Term Loan that matured on July 25, 2016.

Valuation Technique
The market value was determined using the market comparison technique. The fair values are based on PDEX. The bonds are traded in an active market and the quotes reflect the actual transactions in similar instruments.

The fair value of the long-term debt amounting to P15,129,886 as of December 31, 2016 has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 28).

Bonds payable amounted to P14,842,563 and P14,113,488 while accrued interest amounted to P159,379 and P411,775 as of December 31, 2016 and 2015, respectively. Interest expense amounted to P435,166, P1,147,860, and P1,123,679 in 2016, 2015 and 2014, respectively.

b. Loans Payable

i. Parent Company

On September 9, 2013, the Parent Company signed a US$650,000, 5-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the London Interbank Offered Rate (LIBOR) plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US$650,000 Facility Agreement was amended extending the loan facility from US$650,000 to US$700,000.

The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions.

In March 2015, the remaining US$200,000 was drawn by the Parent Company from the US$700,000, 5-year term loan, which will mature in September 2018. The drawn amount from the Facility Agreement amounted to US$700,000 in both years (equivalent to P34,804,000 and P32,942,000, as of December 31, 2016 and 2015, respectively).

ii. SCPC

On December 29, 2015, SCPC signed a US$400,000, 7-year term loan with a syndicate of banks. Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period.

The Facility Agreements impose a number of covenants on the part of SCPC including, but not limited to, maintaining a leverage ratio throughout the duration of the Facility Agreements' term. The terms and conditions of the Facility Agreement include a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of its assets or revenues and to secure any indebtedness, subject to certain exceptions.

The loan is secured by real estate and chattel mortgages on all present and future assets and reserves of SCPC as well as a pledge by the Parent Company of all its outstanding shares of stock in SCPC.

As of December 31, 2016, total drawn amount from the Facility Agreement is US$359,339 (equivalent to P17,866,304). Repayment of the loan principal shall commence on October 31, 2017, and every 3 months thereafter. The loan includes amount owed to a related party amounting to P2,687,451 as of December 31, 2016 (Note 19).

iii. SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year term loan with a syndicate of banks, for the acquisition of the initial 2 x 35 MW Limay Co-gen Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount owed to a related party amounting to P3,102,750 as of December 31, 2015 (Note 19).

Effective interest rate ranges from 6.06% to 6.29% in 2016 and 2015, respectively. The Facility Agreement has a final maturity date of September 2023.

Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

On December 23, 2016, the Parent Company pre-settled the entire loan with accrued interest amounting to P11,270,930 using the proceeds from the sale of power plant to Petron (Notes 11, 13 and 19).

Loans payable amounted to P51,481,163 and P44,494,373 while accrued interest amounted to P55,164 and P7,544 as of December 31, 2016 and 2015, respectively. Total interest expense and financing charges on loans payable amounted to P2,726,143, P1,756,754, and P1,475,532 (inclusive of P723,306, P111,147 and P266,655 capitalized in CPIP in 2016, 2015 and 2014, respectively; Note 13) in 2016, 2015 and 2014, respectively.

The amortization of debt issue costs of P369,403, P262,428 and P173,978 is included as part of "Interest expense and other financing charges" account in the consolidated statements of income in 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follows:

	Note	**2016**	2015
Balance at beginning of year		**P685,839**	P669,555
Additions		**1,142,741**	284,310
Amortization		**(369,403)**	(262,428)
Capitalized amount	*13*	**(112,599)**	(5,598)
Balance at end of year		**P1,346,578**	P685,839

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

	Gross Amount				
Year	Dollar Amount	Peso Equivalent of US Dollar	Peso	Debt Issue Costs	Net
2017	$24,507	P1,218,482	P -	P177,792	P1,040,690
2018	731,945	36,392,314	-	486,317	35,905,997
2019	33,814	1,681,219	-	152,939	1,528,280
2020	35,575	1,768,764	-	139,999	1,628,765
2021	38,054	1,892,042	6,153,250	187,014	7,858,278
2022 and thereafter	195,444	9,717,483	8,846,750	202,517	18,361,716
	$1,059,339	P52,670,304	P15,000,000	P1,346,578	P66,323,726

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 27.

19. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of December 31:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*22*	**2016**	**P -**	**P660,590**	**P252**	**P6,201**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2015	-	1,177,187	252	106,573		
Entities Under Common Control	*6, 8, 9, 17, 22*	**2016**	**10,248,500**	**3,300,854**	**1,589,923**	**562,408**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2015	8,817,828	2,835,155	1,461,602	358,842		
	8, 13	**2016**	**17,883,913**	**-**	**4,063,525**	**-**	180 days; non-interest bearing	Unsecured; no impairment
		2015	-	-	-	-		
Associate	*8, 17*	**2016**	**1,004,967**	**198,445**	**90,767**	**36,040**	30 days; non-interest bearing	Unsecured; no impairment
		2015	958,043	-	92,621	28,101		
	16	**2016**	**12,929**	-	**254,827**	-	9 years; interest bearing	Unsecured; no impairment
		2015	-	-	253,812	-		
Associates of Entities Under Common Control	*6, 8, 9*	**2016**	**763,309**	**199,635**	**102,256**	**28,787**	30 days; non-interest bearing	Unsecured; no impairment
		2015	735,355	118,896	78,952	6		
	18	**2016**	**-**	**-**	**-**	**2,687,451**	7 or 10 years; Interest bearing	Secured
		2015	-	-	-	3,102,750		
Others	*8, 17*	**2016**	**84,493**	**-**	**37,065**	**-**	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2015	7,419	321,143	1,674	160,378		
		2016	**P29,998,111**	**P4,359,524**	**P6,138,615**	**P3,320,887**		
		2015	P10,518,645	P4,452,381	P1,888,913	P3,756,650		

All current outstanding balances with related parties are settled in cash within twelve months from the reporting date.

a. Amounts owed by related parties consist of trade and other receivables and security deposits (Notes 8).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.

c. Amounts owed by an associate consists 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 and management fees charged to Angat Hydro by PVEI (Notes 8, 16 and 23).

d. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of “Long-term debt” account in the consolidated statements of financial position (Note 18).

e. The compensation of key management personnel of the Group amounted to P39,712, P37,509 and P32,604 for the years ended December 31, 2016, 2015 and 2014, respectively.

20. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit retirement plans covering all of their permanent employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefits expense and liability is determined using the projected unit credit method. The Group’s latest actuarial valuation date is December 31, 2016. Valuations are obtained on a periodic basis.

The following table shows reconciliation of the net defined benefit retirement obligation and its component:

	2016	2015
Balance at beginning of year	**P45,657**	P16,692
Recognized in Profit or Loss		
Current service cost	**6,174**	5,866
Interest cost	**2,214**	745
	8,388	6,611
Recognized in Other Comprehensive Income		
Remeasurements:		
Actuarial (gains) losses arising from:		
Experience adjustments	**17,502**	22,354
Changes in financial assumptions	**(2,183)**	-
	15,319	22,354
Balance at the end of year	**P69,364**	P45,657

Defined benefit retirement obligation included as part of “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to P69,364 and P45,657 as of December 31, 2016 and 2015, respectively.

The retirement costs amounting to P8,388, P6,611 and P8,978 in 2016, 2015 and 2014, respectively, are recognized as part of “Salaries, wages and benefits” under “Operating expenses” account in the consolidated statements of income (Note 22).

The reserve for retirement plan as of December 31, 2016 and 2015 comprises of net actuarial loss recognized in other comprehensive income during the year amounting to P15,319 and P22,354, respectively.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2016	2015
Discount rate	**4.93% - 5.38%**	4.43% - 4.89%
Salary increase rate	**7.00%**	7.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the defined benefit retirement obligation ranges from 8.0 to 9.0 years and 8.9 to 9.2 years as of December 31, 2016 and 2015, respectively.

Sensitivity Analysis

As of December 31, 2016 and 2015, the reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit retirement obligation by the amounts shown below:

	Defined Benefit Retirement Obligation			
	2016		2015	
	1% Increase	**1% Decrease**	1% Increase	1% Decrease
Discount rate	**(P4,151)**	**P4,558**	(P3,060)	P3,370
Salary increase rate	**4,063**	**(3,793)**	2,991	(2,785)

Risks and Management of Risks

The defined benefit retirement obligation expose the Group to actuarial risks, such as longevity risk and interest rate risk.

The defined benefit retirement obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit retirement obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit retirement obligation. Also, benefit claims under the defined benefit retirement obligation are paid directly by the Group when they become due.

21. Equity

Capital Stock

As of December 31, 2016 and 2015, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2016	2015
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable	**187,500**	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,003,500 common shares as of December 31, 2016 and 2015.

Equity Reserves
In September 2010, the Parent Company acquired the remaining 40% non-controlling ownership interest of SMC in SMEC and SPDC. The difference between the price paid and carrying amount of net assets transferred was recognized in equity.

Retained Earnings
The Parent Company's retained earnings available for dividend declaration, calculated based on the regulatory requirements of the Philippine SEC, amounted to P508,785 and P1,186,479 as at December 31, 2016 and 2015, respectively. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2016

Date of Declaration	**Stockholders of Record**	**Date Payable**	**Dividend Per Share**	**Amount**
June 7, 2016	**June 7, 2016**	**June 14, 2016**	**P1.20**	**P1,500,000**
August 11, 2016	**August 11, 2016**	**August 18, 2016**	**1.20**	**1,500,000**
				P3,000,000

December 31, 2015

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2015	March 25, 2015	March 31, 2015	P1.20	P1,500,000
July 2, 2015	July 2, 2015	July 9, 2015	1.20	1,500,000
November 5, 2015	November 5, 2015	November 10, 2015	1.20	1,500,000
				P4,500,000

December 31, 2014

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2014	March 25, 2014	April 8, 2014	P1.20	P1,500,000
June 3, 2014	June 3, 2014	June 10, 2014	2.80	3,500,000
August 19, 2014	August 19, 2014	August 29, 2014	2.00	2,500,000
November 4, 2014	November 4, 2014	November 11, 2014	2.00	2,500,000
				P10,000,000

Parent Company
On December 22, 2014, the BOD approved the appropriation of retained earnings amounting to P9,128,000 for additional funding requirements on its expansion projects.

On December 23, 2015, the BOD approved the appropriation amounting to P7,700,000 for the payment of the US$700,000, 5-year term loan that will mature in September 2018 (Note 18). Reversals during 2015 pertain to: (a) construction of power plant amounting to P2,092,750; (b) interest on bonds payable amounting to P446,250; (c) interest on loans payable amounting to P104,000; and (d) expansion projects amounting to P9,128,000.

In 2016, reversals amounted to P2,966,000 for the debt servicing of the $700,000 loan, as intended.

Total appropriated retained earnings of the Parent Company amounted to P4,734,000, P7,700,000 and P11,771,000 as at December 31, 2016, 2015, and 2014 respectively.

SMEC, SPPC and SPDC
On December 22, 2014, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P6,375,000, P4,370,500, and P2,604,600, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

On December 23, 2015, the BOD of SMEC, SPPC and SPDC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P4,990,000, P1,806,300 and P352,400, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

On December 21, 2016, the BOD of SMEC and SPPC approved the appropriation of retained earnings for fixed monthly payments to PSALM amounting to P1,099,300 and P2,990,300, respectively, pursuant to the IPPA Agreements and additional funding requirements on their expansion project.

The appropriations reversed in 2016, 2015 and 2014 were used for the required capital expenditures and fixed monthly payments of SMEC, SPPC and SPDC to PSALM, as intended.

Total combined appropriated retained earnings of SMEC, SPPC and SPDC amounted to P20,507,200, P17,455,600 and P17,631,900 as at December 31, 2016, 2015 and 2014, respectively.

<u>Undated Subordinated Capital Securities</u>
The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

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

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

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

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

Details of distributions paid to USCS holders are as follows:

	2016	2015	2014
February	**P689,223**	P -	P -
May	**756,804**	714,616	-
August	**681,412**	-	-
November	**777,134**	736,072	723,214
	P2,904,573	P1,450,688	P723,214

On February 24, 2017, the Parent Company paid distributions to holders of the $300,000 USCS issued in August 2015, amounting to P720,611.

On March 13, 2017, the Parent Company's BOD approved the payment of distribution in the total amount of $11,250, plus applicable taxes, on May 7, 2017 to the holders of the $300,000 USCS issued in May 2014.

22. Plant Operations and Maintenance Fees and Operating Expenses

Plant operations and maintenance consist of:

	Note	**2016**	2015	2014
Plant operations and maintenance fees	*6, 19*	**P379,231**	P440,897	P499,850
Supplies and metering		**59,410**	47,865	22,510
Salaries, wages and benefits		**17,514**	13,326	41,720
Others		**20,189**	123	11,552
		P476,344	P502,211	P575,632

Operating expenses consist of:

	Note	**2016**	2015	2014
Taxes and licenses		**P982,855**	P946,801	P406,979
Impairment losses on trade receivables	*8*	**958,784**	142,658	144,393
Donations		**738,980**	59,781	662,752
Management fees	*19*	**652,167**	1,196,789	456,727
Corporate special program		**384,166**	245,736	134,607
Salaries, wages and benefits	*19, 20*	**361,854**	222,994	149,113
Rent	*4, 6, 19*	**351,091**	360,091	115,849
Repairs and maintenance		**308,335**	138,067	65,952
Supplies		**250,200**	105,617	46,444
Outside services		**212,975**	749,207	152,512
Depreciation and amortization	*13, 15*	**176,989**	73,414	43,774
Market fees	*6*	**160,669**	219,681	233,701
Travel and transportation		**141,463**	57,544	37,233
Professional fees		**137,303**	124,221	130,019
Advertising and promotions		**119,874**	59,653	40,998
Insurance		**63,827**	65,434	38,238
Miscellaneous		**238,118**	136,447	52,639
		P6,239,650	P4,904,135	P2,911,930

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group’s corporate social responsibility projects.

On September 9, 2014, SMEC agreed to provide an additional coal unloader (the Third Unloader) to the Sual Power Plant while Team Sual Corporation (TSC) agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering, however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the intention of both parties to improve the unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024.

23. Other Income (Charges)

Other income (charges) consists of:

	Note	**2016**	2015	2014
PSALM monthly fees reduction	*6*	**P1,509,225**	P1,858,506	P814,565
Construction revenue	*4, 6*	**226,997**	47,091	111,995
Construction cost	*4, 6*	**(226,997)**	(47,091)	(111,995)
Foreign exchange losses - net	*27*	**(8,075,159)**	(7,582,548)	(813,621)
Miscellaneous income (charges) - net	*4, 6, 19*	**(315,820)**	(202,008)	67,281
		(P6,881,754)	(P5,926,050)	P68,225

Miscellaneous income (charges) pertain to impairment losses on non-trade receivables and property, plant and equipment, management fees and rental income charged to related parties (Notes 6, 8, 13 and 19).

24. Income Taxes

The components of income tax expense are as follows:

	Note	**2016**	2015	2014
Current	*25*	**P2,668,503**	P2,181,771	P1,608,293
Deferred		**697,256**	521,637	1,085,130
		P3,365,759	P2,703,408	P2,693,423

Current income tax expense in 2016, 2015 and 2014 represents regular corporate income tax of 30% on taxable income, MCIT on gross income and final tax paid on interest income.

Deferred tax assets (liabilities) arise from the following:

	Note	**2016**	2015
Items Recognized in Profit or Loss			
Allowance for impairment losses on trade and other receivables	*8*	**P458,043**	P170,443
Defined benefit retirement obligation	*20*	**9,507**	6,991
Difference of amortization of borrowing costs over payments and others		**(624,000)**	(472,095)
Difference of depreciation and other related expenses over monthly payments	*6*	**(1,684,499)**	(849,032)
Item Recognized in Other Comprehensive Income			
Equity reserve for retirement plan	*20*	**11,302**	6,706
		(P1,829,647)	(P1,136,987)

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

The deferred taxes are reported in the consolidated statements of financial position as follows:

	2016	2015
Deferred tax assets	**P2,955,570**	P2,745,943
Deferred tax liabilities	**(4,785,217)**	(3,882,930)
	(P1,829,647)	(P1,136,987)

The movements in deferred tax assets (liabilities) are as follows:

December 31, 2016	**Balance at Beginning of Year**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Balance at End of Year**
Allowance for impairment losses on trade and other receivables	**P170,443**	**P287,600**	**P -**	**P458,043**
Defined benefit retirement obligation	**6,991**	**2,516**	**-**	**9,507**
Difference of amortization of borrowing costs over payments and others	**(472,095)**	**(151,905)**	**-**	**(624,000)**
Difference of depreciation and other related expenses over monthly payments	**(849,032)**	**(835,467)**	**-**	**(1,684,499)**
Equity reserve for retirement plan	**6,706**	**-**	**4,596**	**11,302**
Net liabilities	**(P1,136,987)**	**(P697,256)**	**P4,596**	**(P1,829,647)**

December 31, 2015	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at End of Year
Allowance for impairment losses on trade and other receivables	P60,005	P110,438	P -	P170,443
Defined benefit retirement obligation	-	6,991	-	6,991
Difference of amortization of borrowing costs over payments and others	(71,912)	(42,217)	(357,966)	(472,095)
Difference of depreciation and other related expenses over monthly payments	(252,183)	(596,849)	-	(849,032)
Equity reserve for retirement plan	-	-	6,706	6,706
Net liabilities	(P264,090)	(P521,637)	(P351,260)	(P1,136,987)

As of December 31, 2016, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
Year 2016	December 31, 2019	P3,137,496	P19,932
Year 2015	December 31, 2018	2,938,533	10,195
Year 2014	December 31, 2017	2,074,956	3,824
		P8,150,985	P33,951

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2016	2015	2014
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	**17.85%**	30.43%	-
Availment of optional standard deduction and others	**(3.07%)**	(0.78%)	(1.91%)
Income subject to ITH	**-**	-	(7.87%)
Effective income tax rate	**44.78%**	59.65%	20.22%

25. Registrations and License

Registrations with the Board of Investments (BOI)

i. In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kWh of energy was transmitted after commissioning or testing, or 1 month from the date of such commissioning or testing, whichever comes earlier as certified by the National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the Specific Terms and Conditions, due to delay in the implementation of the project for reasons beyond its control. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

ii. On September 20, 2016, LPPC was registered with the BOI under the Omnibus Investment Code of 1987 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant. As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for 3 years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plant.

iii. On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority to SMCPC, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." Authority shall be valid for 1 year from the date of issuance.

iv. SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

v. On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status.

License Granted by the ERC
On August 22, 2011 and August 24, 2016, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another 5 years from August 22, 2016 up to August 21, 2021.

26. Basic and Diluted Earnings (Loss) Per Share

Basic and diluted EPS is computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	**P4,150,662**	P1,828,918	P10,629,482
Distributions to USCS holders for the year	**(2,938,623)**	(1,918,382)	(962,786)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**1,212,039**	(89,464)	9,666,696
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004	1,250,004
Basic/Diluted Earnings (Loss) Per Share (a/b)	**P0.97**	(P0.07)	P7.73

As of December 31, 2016, 2015 and 2014, the Group has no dilutive debt or equity instruments.

27. Financial Risk and Capital Management Objectives and Policies

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

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

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

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

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

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

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the 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 legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD.

The Audit Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Interest Rate Risk

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

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P14,127, P2,092 and P6,388 in 2016, 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

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

Interest Rate Risk Table

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

December 31, 2016	**1 Year or Less**	**>1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P -**	**P -**	**P -**	**P -**	**P6,153,250**	**P8,846,750**	**P15,000,000**
Interest rate							
Series A Bonds					4.3458%		
Series B Bonds						4.7575%	
Series C Bonds						5.1792%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**1,218,482**	**36,392,314**	**1,681,219**	**1,768,764**	**1,892,042**	**9,717,483**	**52,670,304**
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P1,218,482	**P36,392,314**	**P1,681,219**	**P1,768,764**	**P8,045,292**	**P18,564,233**	**P67,670,304**

December 31, 2015	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P3,892,950	P10,903,950
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	
Philippine peso-denominated	171,000	171,000	171,000	171,000	171,000	474,750	1,329,750
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	
Foreign currency-denominated (expressed in Philippine peso)	14,118,000	-	-	-	-	-	14,118,000
Interest rate	7%						
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	32,942,000	-	-	-	32,942,000
Interest rate			LIBOR + Margin				
	P15,691,200	P1,573,200	P34,515,200	P1,573,200	P1,573,200	P4,367,700	P59,293,700

Foreign Currency Risk

The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

		2016		2015	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*7*	**US$108,229**	**P5,381,123**	US$210,578	P9,909,822
Trade and other receivables	*8*	**80,301**	**3,992,573**	81,746	3,846,983
		188,530	**9,373,696**	292,324	13,756,805
Liabilities					
Accounts payable and accrued expenses	*17*	**312,823**	**15,553,551**	278,830	13,121,735
Finance lease liabilities	*6*	**1,880,371**	**93,492,054**	2,057,616	96,831,429
Long-term debt	*18*	**1,059,339**	**52,670,304**	1,000,000	47,060,000
		3,252,533	**161,715,909**	3,336,446	157,013,164
Net Foreign Currency-Denominated Monetary Liabilities		**US$3,064,003**	**P152,342,213**	US$3,044,122	P143,256,359

The Group reported net losses on foreign exchange amounting to P8,075,159, P7,582,548 and P813,621 in 2016, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 23). These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2016	**49.72**
December 31, 2015	47.06
December 31, 2014	44.72

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) for the years ended December 31:

	2016		2015	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P108,229)**	**P108,229**	(P210,578)	P210,578
Trade and other receivables	**(80,301)**	**80,301**	(81,746)	81,746
	(188,530)	**188,530**	(292,324)	292,324
Accounts payable and accrued expenses	**312,823**	**(312,823)**	278,830	(278,830)
Finance lease liabilities	**1,880,371**	**(1,880,371)**	2,057,616	(2,057,616)
Long-term debt	**1,059,339**	**(1,059,339)**	1,000,000	(1,000,000)
	3,252,533	**(3,252,533)**	3,336,446	(3,336,446)
	P3,064,003	**(P3,064,003)**	P3,044,122	(P3,044,122)

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.

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 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 as of December 31:

2016	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P21,491,385**	**P21,491,385**	**P21,491,385**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**22,342,743**	**22,342,743**	**22,342,743**	**-**	**-**	**-**
Noncurrent receivables (included under "Other noncurrent assets - net" account)	**272,019**	**315,066**	**-**	**77,195**	**116,640**	**121,231**
Financial Liabilities						
Accounts payable and accrued expenses*	**31,095,490**	**31,095,490**	**31,095,490**	**-**	**-**	**-**
Finance lease liabilities (including current portion)	**170,089,536**	**213,866,933**	**24,689,002**	**24,966,835**	**84,101,330**	**80,109,766**
Long-term debt - net (including current maturities)	**66,323,726**	**77,424,824**	**3,618,010**	**38,428,920**	**15,077,705**	**20,300,189**

**Excluding statutory receivables and payables*

2015	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	P22,241,361	P22,241,361	P22,241,361	P -	P -	P -
Trade and other receivables - net*	18,473,455	18,486,278	18,486,278	-	-	-
Restricted cash (included under "Other noncurrent assets" account - net)	1,311,740	1,311,740	1,311,740	-	-	-
Noncurrent receivables (included under "Other noncurrent assets - net" account)	253,812	309,075	-	38,634	115,903	154,538
Financial Liabilities						
Accounts payable and accrued expenses*	27,707,659	27,707,659	27,707,659	-	-	-
Finance lease liabilities (including current portion)	179,193,193	231,795,506	23,755,535	24,016,154	77,763,868	106,259,949
Long-term debt - net (including current maturities)	58,607,861	64,490,903	17,262,779	2,969,354	39,484,150	4,774,620

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the 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 incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk as of December 31, without considering the effects of other risk mitigation techniques, is presented below.

	2016	2015
Cash and cash equivalents (excluding cash on hand)	**P21,490,065**	P22,240,755
Trade and other receivables - net*	**22,342,743**	18,473,455
Restricted Cash	**-**	1,311,740
Noncurrent receivables (included under "Other noncurrent assets" account)	**272,019**	253,812
	P44,104,827	P42,279,762

**Excluding statutory receivables*

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

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 51%, 53% and 56% of the Group's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stockholders 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 debt and USCS (Notes 18 and 21).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

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

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

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

28. 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 as of December 31:

	2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P21,491,385**	**P21,491,385**	P22,241,361	P22,241,361
Trade and other receivables - net*	**22,342,743**	**22,342,743**	18,473,455	18,473,455
Restricted cash (included under "Other noncurrent assets - net" account)	**-**	**-**	1,311,740	1,311,740
Noncurrent receivables (included under "Other noncurrent assets - net" account)	**272,019**	**272,019**	253,812	253,812
	P44,106,147	**P44,106,147**	P42,280,368	P42,280,368
Financial Liabilities				
Accounts payable and accrued expenses*	**P31,095,490**	**P31,095,490**	P27,707,659	P27,707,659
Finance lease liabilities (including current portion)	**170,089,536**	**170,089,536**	179,193,193	179,193,193
Long-term debt - net (including current maturities)	**66,323,726**	**66,611,049**	58,607,861	59,760,982
	P267,508,752	**P267,796,075**	P265,508,713	P266,661,834

**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), Restricted Cash, and Noncurrent Receivable. The carrying amounts of these financial assets approximate their fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of noncurrent receivable is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.18% to 4.88% and 2.39% to 4.57% as of December 31, 2016 and 2015, respectively. The discount rates used for foreign currency-denominated loans is nil and 0.43% as of December 31, 2016 and 2015, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

29. Other Matters

a. Electric Power Industry Reform Act of 2001

The EPIRA sets forth the following: (a) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (b) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (c) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements discussed in Note 6.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2016.

b. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined (Note 4).

i. 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 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 the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. 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. The TRO was extended for until September 28, 2015.

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

On October 22, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals (CA) seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." SPPC shall file the appropriate pleading and opposition to the TRO and injunction applications of PSALM.

The preliminary conference on the RTC case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. The case has been referred to Judicial Dispute Resolution process at the trial court level.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

ii. Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. 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. The case is still pending with the DOJ as of December 31, 2016.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (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 Information against the respondents for (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On June 17, 2016, SMEC filed with the 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 of electricity generated from capacity in excess of the 1000 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). 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.

Pending for resolution are (a) PSALM's Motion for Preliminary Hearing and Special and Affirmative Defenses and (b) SMEC's Omnibus Motion (to Admit Supplemental Complaint and to Allow Future Consignations without Tender).

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.

iii. *Temporary Restraining Order Issued to Meralco*

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. 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, including SMEC and SPPC 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. Further, on December 27, 2013, the DOE, the 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 will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while 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. On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the CA a Petition for Review of these orders.

In a resolution dated October 11, 2016, the CA directed the parties to file their respective memoranda. SPPC, SMEC SPDC and SPI filed their memoranda on December 21, 2016. The case is still pending resolution with the CA as of December 31, 2016.

c. <u>Commitments</u>

The outstanding purchase commitments of the Group amounted to P1,588,516 and P2,577,051 as of December 31, 2016 and 2015, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2016 and 2015 is approximately P23,038,949 and P32,704,535, respectively.

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.

We have audited the accompanying consolidated financial statements of SMC Global Power Holdings Corp. (a wholly-owned subsidiary of San Miguel Corporation) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of SMC Global Power Holdings Corp. and Subsidiaries as at December 31, 2015 and 2014, and the consolidated financial performance and consolidated cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which provide that the Parent Company plans to offer and sell its bonds to the public in the Philippines and to list the same in the Philippine Dealing & Exchange Corp. The Parent Company presented its consolidated financial statements as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 to comply with the three-year comparative format under Rule 68 of the Securities Regulation Code, as amended.

R.G. Manabat & Co.

March 17, 2016
Makati City, Metro Manila

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(In Thousands)

	Note	**2015**	2014
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 26, 27*	**P22,241,361**	P38,304,294
Trade and other receivables - net	*4, 9, 18, 26, 27*	**18,473,625**	18,208,339
Inventories	*4, 10*	**1,263,218**	1,365,033
Prepaid expenses and other current assets	*7, 11*	**15,068,747**	9,137,202
Total Current Assets		**57,046,951**	67,014,868
Noncurrent Assets			
Property, plant and equipment - net	*4, 12*	**255,452,996**	228,133,323
Investments and advances - net	*4, 13*	**10,612,937**	10,612,277
Deferred exploration and development costs	*4, 6*	**689,548**	671,783
Intangible assets and goodwill	*4, 6, 14*	**2,413,249**	2,322,241
Deferred tax assets	*4, 23*	**2,745,943**	2,779,380
Other noncurrent assets - net	*15, 18, 26, 27*	**2,248,226**	2,215,415
Total Noncurrent Assets		**274,162,899**	246,734,419
		P331,209,850	P313,749,287
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*13, 16, 18, 26, 27, 29*	**P32,841,050**	P28,101,112
Finance lease liabilities - current portion	*4, 7, 26, 27*	**16,546,763**	16,205,224
Current maturities of long-term debt - net of debt issue costs	*17, 26, 27*	**15,647,244**	1,330,037
Income tax payable		**99,275**	151,360
Total Current Liabilities		**65,134,332**	45,787,733
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*17, 26, 27*	**42,960,617**	47,383,208
Finance lease liabilities - net of current portion	*4, 7, 26, 27*	**162,646,430**	170,098,521
Deferred tax liabilities	*23*	**3,882,930**	3,043,470
Other noncurrent liabilities	*16, 19, 29*	**150,283**	687,178
Total Noncurrent Liabilities		**209,640,260**	221,212,377
Total Liabilities		**274,774,592**	267,000,110

Forward

	Note	2015	2014
Equity	*20*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Undated subordinated capital securities		**26,933,565**	13,110,066
Reserves		**785,279**	785,279
Reserve for retirement plan		**(15,648)**	-
Retained earnings		**25,179,558**	29,301,328
Total Equity		**56,435,258**	46,749,177
		P331,209,850	P313,749,287

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands, Except Per Share Data)

	Note	2015	2014	2013
REVENUES	*5, 7, 18, 28*			
Sale of power		**P73,849,465**	P80,080,157	P73,882,922
Retail and other power-related services		**3,657,226**	4,213,433	160,865
		77,506,691	84,293,590	74,043,787
COST AND EXPENSES				
Cost of power sold:				
Energy fees	*5, 7*	**23,224,178**	30,775,896	31,269,293
Coal, fuel oil and other consumables	*5, 7, 10, 18*	**10,376,590**	11,945,280	11,179,322
Power purchases	*5, 7*	**8,330,550**	6,045,468	3,929,184
Depreciation and amortization	*5, 7, 12*	**6,466,398**	6,143,866	5,382,435
Plant operations and maintenance fees	*5, 18, 21*	**502,211**	575,632	194,388
Operating expenses	*5, 7, 18, 21*	**4,904,135**	2,911,930	1,547,750
		53,804,062	58,398,072	53,502,372
		23,702,629	25,895,518	20,541,415
INTEREST INCOME	*8*	**414,444**	549,977	447,843
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 17*	**(13,130,252)**	(13,168,470)	(12,673,891)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES - Net	*13*	**(528,445)**	(22,345)	795,004
GAIN ON SALE OF INVESTMENT	*13*	**-**	-	2,587,044
OTHER INCOME (CHARGES) - Net	*7, 22*	**(5,926,050)**	68,225	(8,491,062)
INCOME BEFORE INCOME TAX		**4,532,326**	13,322,905	3,206,353
INCOME TAX EXPENSE (BENEFIT) - Net	*23, 24*	**2,703,408**	2,693,423	(836,302)
NET INCOME		**P1,828,918**	P10,629,482	P4,042,655
Basic/Diluted Earnings Per Share	*25*	**(P0.07)**	P7.73	P3.23

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

(In Thousands)

	Note	**2015**	2014	2013
NET INCOME		**P1,828,918**	P10,629,482	P4,042,655
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*19*	**(22,354)**	-	-
Income tax benefit	*23*	**6,706**	-	-
Share in other comprehensive income of an associate, net of disposal	*13, 20*	**-**	-	39,306
		15,648	-	39,306
TOTAL COMPREHENSIVE INCOME		**P1,813,270**	P10,629,482	P4,081,961

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands)

	Capital Stock (Note 20)	Additional Paid-in Capital	Undated Subordinated Capital Securities (Note 20)	Reserves (Note 20)	Reserve for Retirement Plan (Note 19)	Retained Earnings (Note 20)	Total Equity
Balance as of January 1, 2015	**P1,062,504**	**P2,490,000**	**P13,110,066**	**P785,279**	**P -**	**P29,301,328**	**P46,749,177**
Net income for the year	-	-	-	-	-	**1,828,918**	**1,828,918**
Equity reserve for retirement plan - net of tax	-	-	-	-	**(15,648)**	-	**(15,648)**
Total comprehensive income for the year	-	-	-	-	**(15,648)**	**1,828,918**	**1,813,270**
Issuance of undated subordinated capital securities	-	-	**13,823,499**	-	-	-	**13,823,499**
Dividends declared	-	-	-	-	-	**(4,500,000)**	**(4,500,000)**
Distributions paid	-	-	-	-	-	**(1,450,688)**	**(1,450,688)**
Balance as of December 31, 2015	**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P15,648)**	**P25,179,558**	**P56,435,258**
Balance as of January 1, 2014	P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843
Issuance of undated subordinated capital securities	-	-	13,110,066	-	-	-	13,110,066
Net income/total comprehensive income for the year	-	-	-	-	-	10,629,482	10,629,482
Dividends declared	-	-	-	-	-	(10,000,000)	(10,000,000)
Distributions paid	-	-	-	-	-	(723,214)	(723,214)
Balance as of December 31, 2014	P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Balance as of January 1, 2013	P1,062,504	P2,490,000	P -	P745,973	P -	P29,852,405	P34,150,882
Net income for the year	-	-	-	-	-	4,042,655	4,042,655
Share in other comprehensive income of an associate - net of tax	-	-	-	39,306	-	-	39,306
Total comprehensive income for the year	-	-	-	39,306	-	4,042,655	4,081,961
Dividends declared	-	-	-	-	-	(4,500,000)	(4,500,000)
Balance as of December 31, 2013	P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands)

	Note	**2015**	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P4,532,326**	P13,322,905	P3,206,353
Adjustments for:				
Interest expense and other financing charges	*7, 17*	**13,130,252**	13,168,470	12,673,891
Unrealized foreign exchange losses - net	*26*	**7,505,369**	1,584,500	9,592,617
Depreciation and amortization	*7, 12*	**6,539,813**	6,187,640	5,404,184
Equity in net losses (earnings) of associates and joint ventures - net	*13*	**528,445**	22,345	(795,004)
Impairment losses on trade and other receivables	*9*	**374,801**	144,393	32,850
Retirement benefit expense	*19*	**6,611**	8,978	7,714
Interest income	*8, 9, 15*	**(414,444)**	(549,977)	(447,843)
Gain on sale of investment	*13*	**-**	-	(2,587,044)
Operating income before working capital changes		**32,203,173**	33,889,254	27,087,718
Decrease (increase) in:				
Trade and other receivables - net	*9*	**(749,571)**	(3,037,652)	(1,633,834)
Inventories	*10*	**101,815**	134,102	(314,185)
Prepaid expenses and other current assets	*11*	**(6,647,768)**	(1,902,310)	(240,126)
Other noncurrent assets	*15*	**221,001**	1,290,895	(1,789,482)
Increase (decrease) in:				
Accounts payable and accrued expenses	*16, 29*	**4,686,593**	5,136,893	3,120,373
Other noncurrent liabilities		**(565,860)**	670,486	-
Cash generated from operations		**29,249,383**	36,181,668	26,230,464
Interest income received		**426,480**	546,350	527,661
Finance cost paid	*17*	**(2,907,116)**	(2,196,778)	(800,071)
Income taxes paid		**(1,517,632)**	(1,675,452)	(294,055)
Net cash flows provided by operating activities		**25,251,115**	32,855,788	25,663,999
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to property, plant and equipment	*12*	**(33,832,759)**	(17,299,444)	(19,122,531)
Additions to investments and advances	*13*	**(529,105)**	(4,622,823)	(2,145,936)
Noncurrent receivable	*15*	**(253,812)**	-	-
Additions to intangible assets	*14*	**(117,735)**	(593,649)	-
Additions to deferred exploration and development costs	*6*	**(17,765)**	(145,784)	(200,780)
Proceeds from sale of investment	*9*	**-**	16,228,991	-
Dividends received	*13*	**-**	-	704,407
Net cash flows used in investing activities		**(34,751,176)**	(6,432,709)	(20,764,840)

Forward

	Note	**2015**	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of undated subordinated capital securities	*20*	**P13,823,499**	P13,110,066	P -
Proceeds from long-term debt	*17*	**8,825,000**	1,500,000	33,191,756
Payments of finance lease liabilities	*7*	**(22,280,118)**	(20,123,987)	(19,146,035)
Cash dividends paid	*20*	**(4,500,000)**	(10,000,000)	(4,500,000)
Distributions to undated subordinated capital securities holders	*20*	**(1,450,688)**	(723,214)	-
Payment of long-term debt	*17*	**(1,373,100)**	(193,200)	(8,708,000)
Net cash flows provided by (used in) financing activities		**(6,955,407)**	(16,430,335)	837,721
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**392,535**	(813,621)	(167,154)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(16,062,933)**	9,179,123	5,569,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**38,304,294**	29,125,171	23,555,445
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P22,241,361**	P38,304,294	P29,125,171

See Notes to the Consolidated Financial Statements.

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

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, lease, develop 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's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

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

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

2. Basis of Preparation

Statement of Compliance

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

The Parent Company plans to offer and sell its bonds to the public in the Philippines and to list the same in the Philippine Dealing & Exchange Corp. The Parent Company presented its consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 to comply with the three-year comparative format under Rule 68 of the Securities Regulation Code, as amended.

The consolidated financial statements are also prepared to comply with the requirements under Section 4.12, *Provision of Financial Statements and Reports*, of the US$300,000 7% Notes due 2016 issued by the Parent Company (Note 17).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 17, 2016.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit liability which is measured at present value of the defined benefit obligation.

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

Basis of Consolidation
The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services and coal mining are incorporated in the Philippines and registered with the Philippine SEC. The subsidiaries are as follows:

		Percentage of Ownership	
	Note	**2015**	2014
Power Generation	*7, 18*		
San Miguel Energy Corporation (SMEC)		**100**	100
South Premiere Power Corp. (SPPC)		**100**	100
Strategic Power Devt. Corp. (SPDC)		**100**	100
SMC PowerGen Inc. (SPI)		**100**	100
Limay Power Generation Corporation [(c)]		**100**	100
SMC Consolidated Power Corporation (SCPC) [(b)]		**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(b)]		**100**	100
PowerOne Ventures Energy Inc. (PVEI)	*13*	**100**	100
Central Luzon Premiere Power Corp. (CLPPC) [(e)]		**100**	-
Limay Premiere Power Corp. (LPPC) [(b) (e)]		**100**	-
Mariveles Power Generation Corporation (MPGC) [(e)]		**100**	-
Retail and Other Power-related Services	*7, 18*		
San Miguel Electric Corp. (SMELC)		**100**	100
SMC Power Generation Corp. (SPGC)	*13*	**100**	100
Albay Power and Energy Corp. (APEC)		**100**	100
Coal Mining	*6*		
Daguma Agro-Minerals, Inc. (DAMI) [(a)]		**100**	100
Sultan Energy Phils. Corp. (SEPC) [(a)]		**100**	100
Bonanza Energy Resources, Inc. (BERI) [(a)]		**100**	100
Others			
Mantech Power Dynamics Services Inc. (MPDSI) [(e)]		**100**	-
Safetech Power Services Corp. (SPSC) [(e)]		**100**	-
Ondarre Holding Corporation (OHC) [(d)]	*13*	**100**	-
Golden Quest Equity Holdings Inc. (GQEHI) [(a) (e)]		**100**	-
Grand Planters International, Inc. (GPII) [(f)]	*13*	**100**	-

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2015.
(b) Construction of power plants on-going as of December 31, 2015.
(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2015.
(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2015.
(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2015.
(f) Acquired in September 2015.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group 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.

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

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

Amendments to Standards and Interpretation Adopted in 2015

The Group has adopted the following PFRS effective January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013 contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:

  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment).* PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Disclosures on the Aggregation of Operating Segments *(Amendment to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Scope of Portfolio Exception *(Amendment to PFRS 13, Fair Value Measurement).* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Definition of 'Related Party' *(Amendments to PAS 24, Related Party Disclosures).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The adoption of the amendment did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing these consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Disclosure Initiative *(Amendments to PAS 1, Presentation of Financial Statements)*. The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted IFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 15 replaces International Accounting Standards (IAS) 11, *Construction Contracts*, IAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes,* IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee (PIC) on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

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

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

Financial Assets
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2015 and 2014, the Group has no financial assets at FVPL, AFS financial assets and HTM investments.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 8, 9, 15, 26 and 27).

Financial Liabilities
The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

As of December 31, 2015 and 2014, the Group has no financial liabilities at FVPL.

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.

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, finance lease liabilities and long-term debt are included under this category (Notes 7, 16, 17, 26 and 27).

Embedded Derivatives

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

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

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

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

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

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

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

The Group does not have any embedded derivatives as of December 31, 2015 and 2014.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

<u>Impairment of Financial Assets</u>
The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using specific identification method or first-in-first-out method for materials and supplies, specific identification method or moving average method for coal inventories and moving average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

Business Combination

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

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

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

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

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

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

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

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

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

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

- *Loss of Control*
  On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in consolidated statements of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

<u>Transactions under Common Control</u>
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

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

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but is not control or joint control over those policies.

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

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

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

Under the equity method, the investment in shares of stock of associates or joint ventures 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 associates or joint ventures is recognized as "Equity in net earnings (losses) of associates and joint ventures - net" 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 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 with respect to the Group's net investment in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of associates or joint ventures is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of associates or joint ventures. Such impairment loss is recognized as part of "Equity in net earnings (losses) of associates and joint ventures - net" 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 shares of stock of associates or joint ventures upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Power plants	10 - 43
Building	15 - 25
Other equipment	2 - 15
Leasehold improvements	5 - 10 or term of the lease whichever is shorter

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

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

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

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

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

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

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

	Number of Years
Power concession right	25
Mining rights	Life of mine or expiration of right
Computer software and licenses	3

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

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

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

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

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

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

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

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs. If an entity performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entity account for revenue and costs relating to operation services in accordance with PAS 18.

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

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

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

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

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

Mining Rights

The mining rights that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

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

Amortization of mining rights is recognized in the consolidated statements of income on a straight-line basis over the estimated useful lives. The estimated useful lives of mining rights pertain to the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

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

<u>Deferred Exploration and Development Costs</u>

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and intangible assets and goodwill with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

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

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

Fair Value Measurements

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 in the principal market for the asset or liability, or 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.

Provisions

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

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

Capital Stock and Additional Paid-in Capital

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

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

Undated Subordinated Capital Securities

Undated subordinated capital securities are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

Retained Earnings

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

Others

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

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

Gain on Sale of Investment. Gain or loss is recognized if the Group disposes of its investments in a subsidiary, associate or joint venture. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition

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

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

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

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

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

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

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

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

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

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

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

Retirement benefit expense comprise the following:

- Service costs
- Net interest on the defined benefit liability or asset
- Remeasurements of defined benefit liability or asset

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

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

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

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

Foreign Currency Translations

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

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

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of USCS, by the weighted-average number of issued and outstanding common shares during the period.

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

As of December 31, 2015, 2014 and 2013, the Group has no dilutive equity instruments as disclosed in Note 25 to the consolidated financial statements.

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 12).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P179,193,193 and P186,303,745 as of December 31, 2015 and 2014, respectively (Note 7).

The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively (Note 12).

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

Rent income recognized in the consolidated statements of income amounted to P28,104, P18,434 and nil in 2015, 2014 and 2013, respectively (Note 22).

Rent expense recognized in the consolidated statements of income amounted to P360,091, P115,849 and P24,167 in 2015, 2014 and 2013, respectively (Note 21).

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

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation and should be accounted for under the intangible asset model (Notes 3, 7 and 14).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group's management and legal counsels currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 28).

Estimates and Assumptions

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 27.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P1,241,487 and P866,686 as of December 31, 2015 and 2014, respectively. The carrying amount of trade and other receivables amounted to P18,473,625 and P18,208,339 as of December 31, 2015 and 2014, respectively (Note 9).

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

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

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2015 and 2014.

The carrying amount of inventories amounted to P1,263,218 and P1,365,033 as of December 31, 2015 and 2014, respectively (Note 10).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P255,452,996 and P228,133,323 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P33,916,821 and P27,404,427 as of December 31, 2015 and 2014, respectively (Note 12).

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

Intangible assets with finite useful lives amounted to P2,404,383 and P2,313,375 as of December 31, 2015 and 2014, respectively (Note 14).

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

The carrying amount of goodwill amounted to P8,866 as of December 31, 2015 and 2014 (Note 14).

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

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

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

The Group’s mining activities are all in the exploratory stages as of December 31, 2015. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2015 and 2014.

Deferred exploration and development costs amounted to P689,548 and P671,783 as of December 31, 2015 and 2014, respectively (Note 6).

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

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 23).

Deferred tax assets from temporary differences amounted to P2,745,943 and P2,779,380 as of December 31, 2015 and 2014, respectively (Note 23).

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

The Group assessed that its non-financial assets are not impaired as of December 31, 2015 and 2014.

The combined carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P269,159,864 and P241,730,758 as of December 31, 2015 and 2014, respectively (Notes 6, 12, 13 and 14).

Present Value of Defined Benefit Obligation. The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 19 to the consolidated financial statements and include discount rate and salary increase rate.

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

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

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

The present value of defined benefit obligation amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively (Note 19).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2015 and 2014.

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 CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the exploratory stage of mining activities (Note 6). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2015 and 2014, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

The Group's inter-segment sale of power are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Segment assets do not include investments and advances, intangible assets and goodwill and deferred tax assets. The investment in Manila Electric Company (Meralco) and subsequent transactions affecting investment in Meralco are presented under "Others". Segment liabilities do not include long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

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

Major Customers
The Group sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	2015	2014	2013
Meralco	**P40,889,098**	P47,233,747	P46,952,999
WESM	**6,217,243**	9,622,839	10,770,643

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

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			**Retail and Other Power-related Services**			**Coal Mining**			**Others**			**Eliminations**			**Consolidated**		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Sale of Power																		
External	**P73,849,465**	P80,080,157	P73,882,922	**P3,657,226**	P4,213,433	P160,865	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P77,506,691**	P84,293,590	P74,043,787
Inter-segment	**6,769,834**	4,872,675	2,103,653	**-**	-	-	**-**	-	-	**-**	-	-	**(6,769,834)**	(4,872,675)	(2,103,653)	**-**	-	-
	80,619,299	84,952,832	75,986,575	**3,657,226**	4,213,433	160,865	-	-	-	-	-	-	**(6,769,834)**	(4,872,675)	(2,103,653)	**77,506,691**	84,293,590	74,043,787
Cost and Expenses																		
Cost of power sold	**51,933,914**	56,304,969	53,919,111	**3,723,643**	4,053,848	139,164	**-**	-	-	**-**	-	-	**(6,757,630)**	(4,872,675)	(2,103,653)	**48,899,927**	55,486,142	51,954,622
Operating expenses	**4,791,985**	2,697,961	1,635,443	**226,397**	37,204	7,951	**17,831**	23,919	15,345	**1,294,215**	767,846	504,093	**(1,426,293)**	(615,000)	(615,082)	**4,904,135**	2,911,930	1,547,750
	56,725,899	59,002,930	55,554,554	**3,950,040**	4,091,052	147,115	**17,831**	23,919	15,345	**1,294,215**	767,846	504,093	**(8,183,923)**	(5,487,675)	(2,718,735)	**53,804,062**	58,398,072	53,502,372
Segment Result	**23,893,400**	25,949,902	20,432,021	**(292,814)**	122,381	13,750	**(17,831)**	(23,919)	(15,345)	**(1,294,215)**	(767,846)	(504,093)	**1,414,089**	615,000	615,082	**23,702,629**	25,895,518	20,541,415
Interest income																**414,444**	549,977	447,843
Interest expense and other financing charges																**(13,130,252)**	(13,168,470)	(12,673,891)
Equity in net earnings (losses) of associates and joint ventures - net																**(528,445)**	(22,345)	795,004
Gain on sale of investment																**-**	-	2,587,044
Other income (charges) - net																**(5,926,050)**	68,225	(8,491,062)
Income tax expense - net																**(2,703,408)**	(2,693,423)	836,302
Consolidated Net Income																**P1,828,918**	P10,629,482	P4,042,655

	For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Other Information												
Segment assets	**P297,302,968**	P249,966,190	**P2,773,437**	P2,419,373	**P749,318**	P683,275	**P45,618,031**	P54,904,121	**(P31,006,033)**	(P9,937,570)	**P315,437,721**	P298,035,389
Investments and advances - net	**4,566,249**	1,975,929	**192,012**	191,549	**-**	-	**43,451,916**	8,444,799	**(37,597,240)**	-	**10,612,937**	10,612,277
Intangible assets and goodwill											**2,413,249**	2,322,241
Deferred tax assets											**2,745,943**	2,779,380
Consolidated Total Assets											**P331,209,850**	P313,749,287
Segment liabilities	**P240,770,768**	P213,097,395	**P2,788,300**	P2,081,602	**P763,125**	P74,665	**P1,613,602**	P9,875,451	**(P33,751,269)**	(P10,037,078)	**P212,184,526**	P215,092,035
Long-term debt											**58,607,861**	48,713,245
Income tax payable											**99,275**	151,360
Deferred tax liabilities											**3,882,930**	3,043,470
Consolidated Total Liabilities											**P274,774,592**	P267,000,110
Capital expenditures	**P31,066,140**	P38,878	**P2,893**	P -	**P48**	P15,087	**P2,763,740**	P17,425,124	**P -**	P -	**P33,832,821**	P17,479,089
Depreciation and amortization of property, plant and equipment and intangible assets	**6,469,103**	6,143,959	**21,394**	14,686	**15,136**	18,098	**22,181**	10,897	**11,999**	-	**6,539,813**	6,187,640
Noncash items other than depreciation*	**6,363,892**	1,021,839	**164,633**	11,074	**-**	(23)	**2,051,797**	93,335	**(165,097)**	-	**8,415,225**	1,126,225

**Noncash items other than depreciation and amortization include unrealized foreign exchange gain/losses, impairment losses on trade and other receivables, equity in net earnings (losses) of associates and joint ventures - net and retirement benefit expense.*

6. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	2015	2014
Balance at beginning of year	**P671,783**	P525,999
Additions	**17,765**	145,784
Balance at end of year	**P689,548**	P671,783

SMEC acquired DAMI, SEPC and BERI in 2010 resulting in the recognition of mining rights of P1,719,726 (Note 14).

DAMI's coal property covered by Coal Operating Contract (COC) No. 126, issued by the Department of Energy (DOE), is located in South Cotabato and consists of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 93 million metric tons as of December 31, 2015.

SEPC has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2015, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 24 million metric tons as of December 31, 2015.

Status of Operations
In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

* *The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

As of December 31, 2015, DAMI, SEPC and BERI is in the exploratory stages of its mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

The Group has not identified any facts and circumstances which suggest that the carrying amount of deferred exploration and development costs exceeded recoverable amount as of December 31, 2015 and 2014.

7. Agreements

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

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

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

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees in 2015, 2014 and 2013 amounted to P23,224,178, P30,775,896 and P31,269,293, respectively. SMEC, SPDC and SPPC renewed their performance bonds in United States dollar (US$) amounting to US$58,187, US$20,305 and US$60,000 which will expire on November 3, 2016, January 25, 2016 and June 16, 2016, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2017.

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense in 2015, 2014 and 2013 amounted to P10,212,753, P10,711,071 and P10,983,520, respectively.

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

2015	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than 1 year	**US$250,209**	**P11,774,823**	**P11,980,712**	**P23,755,535**
More than 1 year and not later than 5 years	**1,071,953**	**50,446,106**	**51,333,916**	**101,780,022**
Later than 5 years	**1,118,634**	**52,642,925**	**53,617,024**	**106,259,949**
	2,440,796	**114,863,854**	**116,931,652**	**231,795,506**
Less: Future finance charges on finance lease liabilities	**383,180**	**18,032,425**	**34,569,888**	**52,602,313**
Present values of finance lease liabilities	**US$2,057,616**	**P96,831,429**	**P82,361,764**	**P179,193,193**

2014	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US$238,557	P10,668,258	P11,423,146	P22,091,404
More than 1 year and not later than 5 years	1,027,007	45,927,750	49,178,287	95,106,037
Later than 5 years	1,413,789	63,224,641	67,753,365	130,978,006
	2,679,353	119,820,649	128,354,798	248,175,447
Less: Future finance charges on finance lease liabilities	462,375	20,677,383	41,194,319	61,871,702
Present values of finance lease liabilities	US$2,216,978	P99,143,266	P87,160,479	P186,303,745

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

2015	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than 1 year	**US$197,094**	**P9,275,262**	**P7,271,501**	**P16,546,763**
More than 1 year and not later than 5 years	**767,797**	**36,132,517**	**25,606,142**	**61,738,659**
Later than 5 years	**1,092,725**	**51,423,650**	**49,484,121**	**100,907,771**
	US$2,057,616	**P96,831,429**	**P82,361,764**	**P179,193,193**

2014	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US$194,970	P8,719,059	P7,486,165	P16,205,224
More than 1 year and not later than 5 years	764,915	34,206,990	26,604,935	60,811,925
Later than 5 years	1,257,093	56,217,217	53,069,379	109,286,596
	US$2,216,978	P99,143,266	P87,160,479	P186,303,745

b. Market Participation Agreements (MPA)

SMEC, SPDC and SPPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. In 2015, 2014 and 2013, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P219,681, P233,701 and P246,591, respectively (Note 21).

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2016, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SMELC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC and SPDC purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

d. Coal Supply Agreements

SMEC and SPI, through its operation and maintenance (O&M) service provider, have supply agreements with various coal suppliers for their power plants' coal requirements.

e. Operations and Maintenance Services Agreement

In exchange for the O&M services rendered by Petron Corporation (Petron), an entity under common control, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of the power plant. The agreement is effective for 25 years from September 2013 until 2038.

f. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM and SMEC. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

g. Lease Agreements

Group as Lessee

i. The Group has operating lease agreements with San Miguel Properties, Inc. (SMPI), an entity under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.

ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVRC), an entity under common control. The existing lease agreement is for a 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3.0% per annum escalation rate for the 4 years following the negotiation under the lease terms.

iii. SMEC entered into a lease agreement with Challenger Aero Air Corporation (Challenger), an entity under common control, for the lease of certain aircrafts for a period of 1 year from October 1, 2014 to September 30, 2015.

The lease agreement was pre-terminated on April 30, 2015.

Subsequently, SMEC entered into a new lease agreement with Challenger for the lease of the same aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016 for a monthly rental of P25,000. Under the terms of the agreement, SMEC paid security deposits amounting to P572,876.

iv. On November 3, 2015, SCPC leased a parcel of land with a total area of 96,663 square meters from NVRC for a period of 25 years from the effective date. SCPC has the option to renew the lease for a further 25 years. Upon execution of the agreement, the lump sum of P23,786 and a monthly rental of P1,081 covering 1 year is paid in advance. The monthly rental rate of P1,081 shall be increased annually by 6.0% starting with the second anniversary of the lease execution.

v. On November 5, 2015, SCPC entered into another agreement with NVRC for the lease of a parcel of land with a total area of 274,265 square meters for the development and construction of an Ash Dump Facility for its power plant. The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. The rental rate is P1,371 for the first twelve months and thereafter, on each anniversary of the lease execution, the monthly rental shall be increased by 5.5%.

vi. On December 7, 2015, LPPC leased a total of 11,008 square meters from NVRC for a period of 25 years from the effective date. LPPC has the option to renew this lease for another 25 years. The rental rate is P2,300 for the first 12 months and thereafter, starting with the second anniversary of the lease execution, the agreed monthly rental shall be increased annually by 6.0%.

vii. DAMI leases its land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The monthly rental rate is P28 for the first 12 months, subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P405 and P336 as of December 31, 2015 and 2014, respectively.

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

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

	2015	2014	2013
Within 1 year	**P63,593**	P24,732	P23,270
After 1 year but not more than 5 years	**138,776**	26,315	62,289
More than 5 years	**1,381,648**	2	-
	P1,584,017	P51,049	P85,559

Rent expense recognized in the consolidated statements of income amounted to P360,091, P115,849 and P24,167 in 2015, 2014 and 2013, respectively (Note 21).

Group as Lessor

i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties.

ii. In July 2011, GPII entered into an agreement with Limay Energen Corporation (LEC), an entity under common control, to lease a parcel of land located in Limay, Bataan, with a total area of 25,981 square meters. The lease term is for a period of 10 years up to July 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P2,033 with an escalation rate of 3.0% every year from signing of the contract. LEC executed a deed of assignment lease on July 19, 2012, assigning all rights and obligations to the leased area to Petron. Petron is the assignee for the remaining period of the lease effective June 1, 2012.

iii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P1,983 with an escalation rate of 3.0% every year from signing of the contract. This Agreement was amended on December 29, 2015, reducing the leased area to 340,646 square meters effective October 1, 2013.

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

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

	2015	2014
Within 1 year	**P46,517**	P7,200
After 1 year but not more than 5 years	**183,394**	3,957
More than 5 years	**20,204**	-
	P250,115	P11,157

Rent income recognized in the consolidated statements of income amounted to P28,104, P18,434 and nil in 2015, 2014 and 2013, respectively (Note 22).

h. Concession Agreement

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

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); ii) if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO formally turned over the operations to APEC on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P159,086 and P111,995 as of December 31, 2015 and 2014, respectively. Interest expense on concession payable is included as part of "Interest expense and other financing charges" account in the consolidated statements of income amounted to P6,254, P4,769 and nil in 2015, 2014 and 2013, respectively. Amortization of concession assets recognized in the "Depreciation and amortization" account in the consolidated statements of income amounted to P21,296, P14,610 and nil in 2015, 2014 and 2013, respectively.

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

	2015	2014
Within 1 year	**P2,273**	P2,146
After 1 year but not more than 5 years	**10,515**	9,929
More than 5 years	**94,110**	96,969
	P106,898	P109,044

Power concession assets consist of:

	Note	**2015**	2014
Cost			
Balance at beginning of year		**P496,312**	P -
Additions		**47,091**	496,312
Balance at end of year		**543,403**	496,312
Accumulated Amortization			
Balance at beginning of year		**14,610**	-
Amortization		**21,296**	14,610
Balance at end of year		**35,906**	14,610
	14	**P507,497**	P481,702

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P47,091, P111,995 and nil in 2015, 2014 and 2013, respectively.

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

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

Revenue from sale of capacity of the San Roque Power Plant amounted to P1,274,893, P1,488,437 and P577,192 in 2015, 2014 and 2013, respectively, and was recognized as part of "Sale of power" account in the consolidated statements of income.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2015**	2014
Cash in banks and on hand		**P4,390,785**	P9,043,630
Short-term investments		**17,850,576**	29,260,664
	26, 27	**P22,241,361**	P38,304,294

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income from cash and cash equivalents amounted to P261,338, P356,852 and P384,637 in 2015, 2014 and 2013, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2015**	2014
Trade	*18*	**P13,448,756**	P13,195,630
Other receivables		**6,266,356**	5,879,395
		19,715,112	19,075,025
Less allowance for impairment losses:			
Trade	*18*	**1,031,784**	866,686
Other receivables		**209,703**	-
		1,241,487	866,686
	26, 27	**P18,473,625**	P18,208,339

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 VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses on trade and other receivables are as follows:

	2015	2014
Balance at beginning of year	**P866,686**	P722,293
Impairment losses during the year	**374,801**	144,393
Balance at end of year	**P1,241,487**	P866,686

Impairment losses is recognized in profit or loss as follows:

	Note	**2015**	2014	2013
Operating expenses	*21*	**P142,658**	P144,393	P32,850
Other income (charges)	*22*	**232,143**	-	-
		P374,801	P144,393	P32,850

The aging of trade and other receivables as of December 31 are as follows:

	2015			2014		
	Trade	**Other Receivables**	**Total**	Trade	Other Receivables	Total
Current	**P6,318,467**	**P876,542**	**P7,195,009**	P6,703,992	P3,298,074	P10,002,066
Past due:						
Less than 30 days	**577,945**	**51,634**	**629,579**	1,125,712	137,125	1,262,837
30-60 days	**376,895**	**54,940**	**431,835**	574,608	141,560	716,168
61-90 days	**201,639**	**2,938,954**	**3,140,593**	194,855	3,097	197,952
Over 90 days	**5,973,810**	**2,344,286**	**8,318,096**	4,596,463	2,299,539	6,896,002
	P13,448,756	**P6,266,356**	**P19,715,112**	P13,195,630	P5,879,395	P19,075,025

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due 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. There were no write-offs or reversals in 2015, 2014 and 2013.

Other receivables include the following:

a. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2015 and 2014, HCML and Caason has paid a total amount of P107,086 and P119,841, respectively, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to P105,735, P118,824 and P25,015 in 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, total outstanding receivables from HCML amounted to P203,099 (net of allowance for impairment loss) and P566,155, respectively.

b. Pursuant to the MOA in respect of excess capacity of Sual Power Station, SMEC has receivables from Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (TSC) for their share in fuel, market fees, coal and other charges related to the operation of the Sual Power Plant amounting to P33,658 and P59,871 as of December 31, 2015 and 2014, respectively. Likewise, SMEC has receivables from TPEC for share in WESM transactions amounting to P1,083,353 and P926,583 as of December 31, 2015 and 2014, respectively.

c. Due from PSALM amounting to US$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court of Mandaluyong City (Note 28).

d. Advances to suppliers for the deposits made to certain suppliers in 2014 for the ongoing construction of 2 x 150 Mega Watt (MW) Coal-Fired Power Plant.

e. The Parent Company's receivable from the sale of investment in an associate amounting to P16,228,991. The Parent Company collected the receivable from J.G. Summit Holdings, Inc. (J.G. Summit) in 2014 (Note 13).

f. The balance mainly pertains to receivables from customers related to power rate adjustments which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	**2015**	2014
Coal	*7, 18*	**P1,079,086**	P1,179,585
Materials and supplies		**109,820**	86,242
Fuel oil	*18*	**67,599**	93,402
Other consumables		**6,713**	5,804
		P1,263,218	P1,365,033

There were no inventory write-downs to net realizable value for the years ended December 31, 2015 and 2014. Inventories charged to cost of power sold amounted to P10,376,590, P11,945,280 and P11,179,322 in 2015, 2014 and 2013, respectively.

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2015**	2014
Input VAT		**P10,960,202**	P7,389,026
Prepaid tax		**2,253,885**	1,296,666
Prepaid rent and others	*7, 18*	**1,854,660**	451,510
		P15,068,747	P9,137,202

Input VAT consists of current and deferred input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 16).

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

Prepaid rent and others pertain to the following:

a. Prepaid rent of the Group from various operating lease agreements amounted to P61,961 and P12,173 as of December 31, 2015 and 2014, respectively (Note 7).

b. PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2015.

c. Professional services related to project financing of SCPC (Note 28).

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants (Note 7)	Building	Land and Leasehold Improvements	Other Equipment	Capital Projects in Progress	Total
Cost						
January 1, 2014	P221,760,866	P3,480,934	P346,602	P960,758	P11,705,540	P238,254,700
Additions	-	-	46	98,542	17,380,501	17,479,089
Disposals	-	-	-	-	(82,420)	(82,420)
Reclassifications	5,027,966	2,350,163	-	98,776	(7,590,524)	(113,619)
December 31, 2014	226,788,832	5,831,097	346,648	1,158,076	21,413,097	255,537,750
Additions	-	10,346	2,649,691	159,223	31,013,561	33,832,821
Disposals	-	-	-	(754)	-	(754)
December 31, 2015	**226,788,832**	**5,841,443**	**2,996,339**	**1,316,545**	**52,426,658**	**289,369,817**
Accumulated Depreciation and Amortization						
January 1, 2014	21,126,707	45,193	9,750	51,531	-	21,233,181
Additions	5,803,956	220,638	36,481	110,171	-	6,171,246
December 31, 2014	26,930,663	265,831	46,231	161,702	-	27,404,427
Additions	6,030,650	301,958	44,848	135,629	-	6,513,085
Disposals	-	-	-	(691)	-	(691)
December 31, 2015	**32,961,313**	**567,789**	**91,079**	**296,640**	**-**	**33,916,821**
Carrying Amount						
December 31, 2014	P199,858,169	P5,565,266	P300,417	P996,374	P21,413,097	P228,133,323
December 31, 2015	**P193,827,519**	**P5,273,654**	**P2,905,260**	**P1,019,905**	**P52,426,658**	**P255,452,996**

a. The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively.

b. On September 23, 2013, SPI acquired from Petron a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant in Bataan, for a total consideration of P16,800,000, inclusive of tax (Note 18). The power plant is used as collateral in securing a loan obtained by SPI from syndicated banks (Note 17).

c. Additions to building, land and leasehold improvements and other equipment include acquisition of assets of OHC and GPII for the Group's power plant expansion projects (Note 13).

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

e. Capital projects in progress pertains to the following:

    i. Project of SMCPC for the construction of 2 x 150 MW Coal-Fired Power Plant in Malita, Davao.

    ii. Projects of SCPC and LPPC for the construction of the 2 x 150 MW Coal-Fired Power Plants each in Limay, Bataan.

    iii. Construction of limestone pulverizing plant and petcoke handling facility of SPI.

    iv. Plant optimization and pumped-storage hydropower projects of SPDC.

    v. SMEC, as IPP Administrator, and TSC, as IPP and operator of the Sual Power Plant, intend to improve the coal receiving and unloading capability of the Sual Power Plant as well as increase the coal shipment deliveries thereto (Note 7).

       On September 9, 2014, SMEC agreed to provide an additional coal unloader (the Third Unloader) to the Sual Power Plant while TSC agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering, however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the intention of both parties to improve the unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024 and is recognized as part of "Donations" under "Operating expenses" account in the consolidated statements of income (Note 21).

    vi. Computer and system installations, and upgrades and implementation of accounting system recognized as part of capital projects in progress were reclassified to "Intangible assets and goodwill" account in the consolidated statements of financial position in 2014 (Note 14).

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

	Note	2015	2014	2013
Cost of power sold		**P6,445,102**	P6,129,256	P5,382,435
Operating expenses	*21*	**73,415**	43,774	21,749
		P6,518,517	P6,173,030	P5,404,184

Total depreciation and amortization recognized in profit or loss include annual amortization of capitalized interest amounting to P13,360, P4,453 and nil in 2015, 2014 and 2013, respectively.

The Group has interest amounting to P105,549, P254,539 and P84,367 which were capitalized in 2015, 2014 and 2013, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P446,789 and P349,498 as of December 31, 2015 and 2014, respectively.

13. Investments and Advances

Investments and advances consist of:

	2015	2014
Cost		
Balance at beginning of year	**P2,074,051**	P301,208
Additions	**1**	1,830,054
Adjustment to subscription payable	**-**	(57,211)
Balance at end of year	**2,074,052**	2,074,051
Accumulated Equity in Net Losses		
Balance at beginning of year	**(63,719)**	(41,374)
Equity in net losses during the year	**(526,463)**	(32,231)
Adjustment to equity in net earnings (losses) in prior year	**(1,982)**	9,886
Balance at end of year	**(592,164)**	(63,719)
	1,481,888	2,010,332
Advances	**9,131,049**	8,601,945
	P10,612,937	P10,612,277

The Group's investments pertain to the following:

a. Olongapo Electricity Distribution Company, Inc. (OEDC)

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

   As of December 31, 2015 and 2014, carrying amount of investment in OEDC amounted to P192,012 and P191,550, respectively. Subscription payable amounted to P28,101 as of December 31, 2015 and 2014 (Note 16).

The table below summarizes the financial information of investment in shares of stock of an associate which is accounted for using the equity method:

Country of Incorporation	**2015 (Unaudited)** **Philippines**	2014 (Audited) Philippines
Current assets	**P421,640**	P390,447
Noncurrent assets	**1,098,207**	1,024,781
Current liabilities	**(655,189)**	(899,921)
Noncurrent liability	**(353,812)**	(9,884)
Net assets	**P510,846**	P505,423
Revenue	**P1,298,687**	P1,234,670
Net income (losses)/total comprehensive income (losses)	**P7,748**	(P66,309)
Share in net income (losses)/total comprehensive income (losses)	**P2,712**	(P23,208)

b. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

In accordance with the agreement of the Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US$26,448 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39,236 and P15 as full payment of the share purchase price of Angat Hydro and KWPP shares, respectively. The payment was funded in part by the deposit in escrow.

In accordance with the entry of PVEI into Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3.0% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015.

<u>Angat Hydro</u>
Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

Details of investments in Angat Hydro and KWPP are as follows:

December 31, 2015	**Angat Hydro**	**KWPP**
Cost		
Balance at beginning of year	**P1,830,039**	**P15**
Additions	**1**	**-**
Balance at end of year	**1,830,040**	**15**
Accumulated Equity in Net Losses		
Balance at beginning of year	**(11,257)**	**(15)**
Equity in net losses during the year	**(529,174)**	**-**
Adjustment to equity in net losses prior period	**267**	**-**
Balance at end of year	**(540,164)**	**(15)**
	P1,289,876	**P -**

December 31, 2014	Angat Hydro	KWPP
Acquisition cost	P1,830,039	P15
Equity in net losses during the year	(11,257)	(15)
	P1,818,782	P -

Unrecognized share in net losses in excess of the Group's interest in KWPP amounted to P171 and nil on December 31, 2015 and 2014, respectively.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2015 (Unaudited)

	Angat Hydro	**KWPP**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P1,143,612**	**P2,049**
Noncurrent assets	**19,716,594**	**19,651**
Current liabilities	**(20,861,349)**	**(4,957)**
Noncurrent liabilities	**(17,693)**	**(17,583)**
Net liabilities	**(P18,836)**	**(P840)**
Revenue	**P1,248,800**	**P -**
Net losses/total comprehensive losses	**(P881,957)**	**(P285)**
Share in net losses/total comprehensive losses	**(P529,174)**	**(P171)**

December 31, 2014 (Audited)

	Angat Hydro	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P407,488	P76
Noncurrent assets	20,187,319	17,783
Current liabilities	(19,713,866)	(630)
Noncurrent liabilities	(17,819)	(17,783)
Net assets (liabilities)	P863,122	(P554)
Revenue	P153,772	P -
Net losses/total comprehensive losses	(P72,591)	(P470)
Share in net losses/total comprehensive losses*	(P10,990)	(P15)

**44 day share in net losses/total comprehensive losses for the period from November 18 to December 31, 2014 of Angat Hydro and KWPP.*

c. Acquisition of OHC and GPII

On February 10, 2015, the Parent Company acquired 100% outstanding capital stock of OHC for a total consideration amount of P588,050, inclusive of transaction costs. OHC is engaged in the business of acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds; to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances; and to carry on, provide support and manage the general business of any corporation, entity or joint venture.

On September 4, 2015, the Parent Company acquired 100% outstanding capital stock of GPII for a total consideration amount of P1,820,972, inclusive of transaction costs. GPII's primary purpose is to carry on and engage in the business of developing and converting the properties in Limay, Bataan into a multi-use industrial park with all the necessary amenities, in joint venture with any person or entity.

The following summarizes the recognized fair value of net assets acquired from OHC and GPII at the acquisition date:

	OHC	**GPII**
Current assets	**P37,609**	**P126,317**
Noncurrent assets	**550,441**	**2,071,882**
Current liabilities	**-**	**(5,940)**
Noncurrent liabilities	**-**	**(371,287)**
Net assets	**P588,050**	**P1,820,972**

In accordance with criteria set out in paragraph 2 of PFRS 3 and based on PIC Question and Answer No. 2011 - 06 PFRS 3 (2008), and PAS 40, Investment Property - *Acquisition of Investment Properties - Asset Acquisition or Business Combination,* the Parent Company is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3.

d. Meralco

In 2012, investment in an associate consists of 69,059,538 quoted common stock of Meralco, representing 6.13% ownership interest. The Parent Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 32.04% interest in Meralco. Accordingly, the Parent Company applied the equity method of accounting on its investment in shares of stock of Meralco. The equity share in the net earnings of Meralco in 2013 amounted to P836,377.

The Parent Company received cash dividends amounting to P704,407 in 2013.

On September 30, 2013, the Parent Company, together with SMC and San Miguel Pure Foods Company, Inc., entered into a Share Purchase Agreement with J.G. Summit, for the sale of the Parent Company's 69,059,538 shares of stock of Meralco for P16,228,991. The sale is subject to the satisfaction of certain closing conditions, which were satisfied by all the parties on December 11, 2013. As a result of the sale, the Group recognized a gain of P2,587,044, net of expenses, included as part of "Gain on sale of investment" account in the 2013 consolidated statement of income (Note 9).

Advances pertain to deposits made for future investment in land holding companies and power-related expansion projects.

14. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	Note	**2015**	2014
Mining rights	*6*	**P1,719,726**	P1,719,726
Power concession assets - net	*7*	**507,497**	481,702
Computer software		**177,160**	111,947
Goodwill		**8,866**	8,866
		P2,413,249	P2,322,241

Goodwill is attributed to the Group's acquisition of SMEC and SPDC in 2010. Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2015 and 2014.

15. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2015**	2014
Restricted cash	*26, 27*	**P1,311,740**	P1,054,801
Deferred input VAT - net of current portion		**682,674**	980,057
Noncurrent receivable	*18, 26, 27*	**253,812**	179,129
Advances to suppliers		**-**	1,428
		P2,248,226	P2,215,415

Restricted cash represents: (a) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank, as part of the provisions in SPI's Facility Agreement, amounting to P1,208,870 and P1,021,163 as of December 31, 2015 and 2014, respectively (Note 17); and (b) APEC's collected contributions from consumers, membership fees and bill deposits amounting to P102,870 and P33,638 as of December 31, 2015 and 2014, respectively (Note 7).

The deferred input VAT mainly pertains to the input VAT on the purchase of power plant from Petron (Note 17).

Noncurrent receivable pertains to loan granted by SPGC to OEDC which is payable in equal monthly payments of principal and interest at 4.7252% commencing on January 1, 2017 and thereafter on the first day of each month until December 2024 (Note 18). In 2014, this represents receivable from a third party for the sale of the Parent Company's 100% ownership interest in Panasia Energy, Inc., net of current portion. As of December 31, 2015, the entire receivable was classified as current assets and presented as "Other receivables" under the "Trade and other receivables" account in the consolidated statements of financial position.

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2015**	2014
Non-trade		**P15,115,167**	P10,189,569
Trade	*7, 18*	**12,903,186**	12,621,078
Output VAT		**4,057,706**	4,623,037
Accrued interest	*7, 17*	**493,897**	487,997
Withholding taxes		**242,993**	151,330
Subscription payable	*13*	**28,101**	28,101
	26, 27	**P32,841,050**	P28,101,112

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.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes. Power rate adjustments include the adjustments in November and December 2013 sale of power to WESM amounting to P563,587 and P1,352,610 as of December 31, 2015 and 2014, respectively. The noncurrent portion is presented as "Other noncurrent liabilities" account in the consolidated statements of financial position in 2014 (Note 28).

17. Long-term Debt

Long-term debt consists of:

	Note	**2015**	2014
Bonds payable		**P14,118,000**	P13,416,000
Less debt issue costs		**4,512**	61,955
		14,113,488	13,354,045
Loans payable		**45,175,700**	35,966,800
Less debt issue costs		**681,327**	607,600
		44,494,373	35,359,200
	26, 27	**58,607,861**	48,713,245
Less current maturities		**15,647,244**	1,330,037
		P42,960,617	P47,383,208

a. Bonds Payable

On January 28, 2011, the Parent Company carried out a US$300,000, 7%, 5-year note (Bonds Payable) issued under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the bonds contain a negative pledge provision with certain limitations on the ability of Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011. Bonds payable amounted to P14,118,000 and P13,416,000 while accrued interest amounted to P411,775 and P391,300 as of December 31, 2015 and 2014, respectively. Interest expense amounted to P1,147,860, P1,123,679 and P1,094,846 in 2015, 2014 and 2013, respectively.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of "Asset Sale", "Material Subsidiary", "Non-Recourse Project Level Indebtedness", "Permitted Security Interest" and "Project Subsidiaries" and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

Bonds payable with maturity of January 28, 2016 was paid on January 26, 2016 using the US$300,000 short-term loan proceeds obtained in 2016 (Note 28).

b. Loans Payable

Parent Company

i) On March 31, 2011, the Parent Company signed a US$200,000, 3-year term loan with a syndicate of banks. The US$200,000 loan was drawn down by the Parent Company on September 30, 2011. Pursuant to the Facility Agreement, the amount of the loan drawn down will bear interest at the rate of the London interbank offered rate (LIBOR) plus a margin, payable in arrears on the last day of the agreed interest period.

   The Parent Company may, by giving not less than ten (10) business days' prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to Break Funding Cost where the prepayment is made on a day other than the last day of an interest period, without minimum penalty.

   On September 30, 2013, the Parent Company pre-terminated the US$200,000, 3-year loan maturing in September 2014.

ii) On September 9, 2013, the Parent Company signed a US$650,000, 5-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US$650,000 Facility Agreement was amended extending the loan facility from US$650,000 to US$700,000.

   The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions.

   In March 2015, the remaining US$200,000 was drawn by the Parent Company from the US$700,000, 5-year term loan, which will mature in September 2018. The drawn amount from the Facility Agreement amounted to US$700,000 and US$500,000 as of December 31, 2015 and 2014, respectively.

SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year term loan with a syndicate of banks, for the acquisition of a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount payable to a related party amounting to P3,102,750 and P3,451,000 as of December 31, 2015 and 2014, respectively.

Effective interest rate ranges from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The Facility Agreement has a final maturity date of September 2023.

SPI may, by giving not less than 30 days prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to a repayment penalty of 1% of the principal amount being paid to be applied against the outstanding amounts due in the inverse order of maturity. The repayment schedule consists of 40 periods on a quarterly basis. The first repayment of principal started in December 2014.

The annual maturities on this loan are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2016	P1,573,200	P39,444	P1,533,756
2017	1,573,200	35,107	1,538,093
2018	1,573,200	30,581	1,542,619
2019	1,573,200	25,733	1,547,467
2020	1,573,200	20,606	1,552,594
2021 and thereafter	4,367,700	26,601	4,341,099
	P12,233,700	P178,072	P12,055,628

The Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

The loan is secured by the mortgage over the power plant and pledge of shares in SPI owned by the Parent Company (Note 12).

Loans payable amounted to P45,175,700 and P35,966,800 while accrued interest amounted to P7,544 and P17,794 as of December 31, 2015 and 2014, respectively. Total interest expense and financing charges on loans payable amounted to P1,756,754, P1,475,532 and P527,527 (inclusive of P111,147, P266,655 and P87,462 capitalized in construction in progress in 2015, 2014 and 2013, respectively; Note 12) in 2015, 2014 and 2013, respectively.

The amortization of debt issue costs of P262,428, P173,978 and P89,912 is included as part of “Interest expense and other financing charges” account in the consolidated statements of income in 2015, 2014 and 2013, respectively.

As of December 31, 2015 and 2014, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follow:

	2015	2014
Balance at beginning of year	**P669,555**	P727,115
Additions	**284,310**	128,535
Amortization	**(262,428)**	(173,978)
Capitalized amount	**(5,598)**	(12,117)
Balance at end of year	**P685,839**	P669,555

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 26.

18. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. 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:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*21*	**2015**	**P -**	**P1,177,187**	**P252**	**P106,573**	On demand or	Unsecured;
		2014	-	267,336	10,557	18,009	30 days;	no impairment
		2013	-	412,372	252	140,143	non-interest	
							bearing	
Entities	*7, 9, 10 12, 21*	**2015**	**8,817,828**	**2,835,155**	**1,461,602**	**358,842**	On demand or	Unsecured;
Under		2014	7,814,823	2,208,319	852,839	418,116	30 days;	no impairment
Common		2013	1,831,882	17,993,545	522,697	524,268	non-interest	
Control							bearing	
Associate		**2015**	**958,043**	**-**	**92,621**	**28,101**	30 days;	Unsecured;
		2014	878,650	-	77,816	28,101	non-interest	no impairment
		2013	167,550	-	81,546	-	bearing	
	15	**2015**	**-**	**-**	**256,472**	**-**	8 years;	Unsecured;
		2014	-	-	-	-	interest	no impairment
		2013					bearing	
Associates of	*7, 10*	**2015**	**735,355**	**118,896**	**78,952**	**6**	30 days;	Unsecured;
Entities		2014	-	-	-	-	non-interest	no impairment
Under		2013					bearing	
Common								
Control	*17*	**2015**	**-**	**-**	**-**	**3,102,750**	10 years;	Secured
		2014	-	-	-	3,451,000	interest	
		2013	-	-	-	3,119,565	bearing	
Others		**2015**	**7,419**	**321,143**	**1,677**	**160,378**	On demand or	Unsecured;
		2014	-	-	-	-	30 days;	no impairment
		2013	-	-	-	-	non-interest	
							bearing	
		2015	**P10,518,645**	**P4,452,381**	**P1,891,576**	**P3,756,650**		
		2014	P8,693,473	P2,475,655	P941,212	P3,915,226		
		2013	P1,999,432	P18,405,917	P604,495	P3,783,976		

a. Amounts owed by related parties consist of trade and other receivables and security deposits (Note 7).

b. Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.

c. Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position.

d. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of “Long-term debt” account in the consolidated statements of financial position.

e. The compensation of key management personnel of the Group amounted to P37,509, P32,604 and P30,702 for the years ended December 31, 2015, 2014 and 2013, respectively.

f. SMC offers shares of stock to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to weighted average daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock up to a maximum of 20,000 shares, subject to certain conditions, through payroll deductions (Note 3).

   The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date. The ESPP also allows subsequent withdrawal and cancellation of participant’s subscriptions under certain terms and conditions.

   In 2015, 2014 and 2013, there are no expenses related to ESPP.

19. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit plan covering all of its eligible employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefit expense and liability is determined using the projected unit credit method. The Group’s latest actuarial valuation date is December 31, 2015. Valuations are obtained on a periodic basis.

The following table shows reconciliation from the opening balances to the closing balances of defined benefit obligation and its components.

	2015	2014
Balance at January 1	**P16,692**	P7,714
Included in Profit or Loss		
Current service cost	**5,866**	8,573
Interest cost	**745**	405
	6,611	8,978
Included in Other Comprehensive Income		
Actuarial losses arising from experience adjustments	**22,354**	-
Balance at December 31	**P45,657**	P16,692

Defined benefit obligation included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively.

The retirement benefit expense amounting to P6,611, P8,978 and P7,714 in 2015, 2014 and 2013, respectively, are recognized as part of "Salaries, wages and benefits" under "Operating expenses" account in the consolidated statements of income (Note 21).

The reserve for retirement plan as of December 31, 2015 comprises of actuarial loss recognized in other comprehensive income during the year amounting to P22,354.

The following were the principal actuarial assumptions at the reporting date:

	2015	2014
Discount rate	**4.43% - 4.89%**	4.12% - 4.49%
Future salary increase	**7.00%**	-

Assumptions regarding future mortality have been based on published statistics and mortality tables. Mortality rate is based from the 2001 CSO Table - Generational (Scale AA, Society of Actuaries).

The weighted average duration of the defined benefit obligation as of December 31, 2015 is 8.9 to 9.2 years.

Details of the expected future benefit payments are as follows:

Financial Year	Amount
2016	P -
2017	4,639
2018	3,889
2019	4,899
2020	3,542
2021 - 2025	17,156

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the rates shown below:

	100 bps Increase	100 bps Decrease
Discount rate	**(6.6% - 7.4%)**	**7.3% - 8.1%**
Salary increase rate	**6.5% - 7.1%**	**(6.0% - 6.7%)**
No attrition rates	**1.9% - 19.5%**	

Risks and Management of Risks

The defined benefit obligation expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The defined benefit obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit obligation. Also, benefit claims under the defined benefit obligation are paid directly by the Group when they become due.

20. Equity

Capital Stock

As of December 31, 2015 and 2014, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2015	2014
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable	**187,500**	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,003,500 common shares as of December 31, 2015 and 2014.

Reserves

	2015	2014	2013
Excess of net assets over purchase price of acquired subsidiaries under common control	**P785,279**	P785,279	P785,279
Share in other comprehensive loss of an associate - net			
Balance at beginning of year	**-**	-	(39,306)
Additions	**-**	-	20,535
Disposal	**-**	-	18,771
Balance at end of year	**-**	-	-
	P785,279	P785,279	P785,279

Excess of net assets over purchase price of acquired subsidiaries under common control pertains to the acquisitions of noncontrolling interest in SMEC and SPDC.

The share in other comprehensive loss of an associate consists of unrealized fair value gain on AFS financial assets and cumulative translation adjustments.

Retained Earnings
The Group's unappropriated retained earnings include the accumulated earnings in subsidiaries and equity in net earnings (losses) of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2015

Date of Declaration	**Stockholders of Record**	**Date Payable**	**Dividend Per Share**	**Amount**
March 25, 2015	**March 25, 2015**	**March 31, 2015**	**P1.20**	**P1,500,000**
July 2, 2015	**July 2, 2015**	**July 9, 2015**	**1.20**	**1,500,000**
November 5, 2015	**November 5, 2015**	**November 10, 2015**	**1.20**	**1,500,000**
				P4,500,000

December 31, 2014

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2014	March 25, 2014	April 8, 2014	P1.20	P1,500,000
June 3, 2014	June 3, 2014	June 10, 2014	2.80	3,500,000
August 19, 2014	August 19, 2014	August 29, 2014	2.00	2,500,000
November 4, 2014	November 4, 2014	November 11, 2014	2.00	2,500,000
				P10,000,000

December 31, 2013

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
February 19, 2013	February 19, 2013	February 28, 2013	P0.80	P1,000,000
May 3, 2013	May 3, 2013	May 15, 2013	0.80	1,000,000
August 13, 2013	August 13, 2013	August 15, 2013	0.80	1,000,000
November 29, 2013	November 29, 2013	December 5, 2013	1.20	1,500,000
				P4,500,000

The Group's appropriated retained earnings, net of reversal, are as follows:

	2015	2014	2013
Parent Company	**P7,700,000**	P11,771,000	P2,643,000
SMEC	**5,340,000**	7,675,000	1,800,000
SPPC	**9,158,600**	7,352,300	2,981,800
SPDC	**2,957,000**	2,604,600	-
	P25,155,600	P29,402,900	P7,424,800

The analysis of appropriated retained earnings as of December 31, 2015 is as follows:

	Parent Company	**SMEC**	**SPPC**	**SPDC**	**Total**
January 1, 2013	P2,643,000	P1,800,000	P2,981,800	P -	P7,424,800
Used/utilized	-	-	-	-	-
Additions	-	-	-	-	-
December 31, 2013	2,643,000	1,800,000	2,981,800	-	7,424,800
Used/utilized	-	(500,000)	-	-	(500,000)
Additions	9,128,000	6,375,000	4,370,500	2,604,600	22,478,100
December 31, 2014	11,771,000	7,675,000	7,352,300	2,604,600	29,402,900
Used/utilized	(11,771,000)	(7,325,000)	-	-	(19,096,000)
Additions	7,700,000	4,990,000	1,806,300	352,400	14,848,700
December 31, 2015	P7,700,000	P5,340,000	P9,158,600	P2,957,000	P25,155,600

On December 27, 2012, the Parent Company appropriated: a) P2,092,750 for the construction of a power plant; and b) P446,250 for the payment of interest on the bonds payable; and c) P104,000 for the payment of interest on the loans payable (Note 17), SPPC appropriated P232,800 for the payment of fees due to PSALM under its IPPA Agreement for the Ilijan Power Plant, and SMEC appropriated: a) P1,238,000 for mining project development costs, b) P500,000 for the upgrading of the Sual power plant's coal unloading facility, and c) P62,000 for the purchase of computer software. These projects were approved by the BOD on the same date, and are expected to commence in 2013. As of December 31, 2013, the projects to which these appropriations relate are still on-going and are expected to be completed in 2-3 years.

On December 22, 2014, the BOD approved the appropriation of retained earnings for fixed monthly payments to PSALM of SMEC, SPPC and SPDC pursuant to the IPPA Agreements and additional funding requirements on its expansion project.

On December 23, 2015, the BOD approved the appropriation of retained earnings amounting to P4,990,000, P1,806,300 and P352,400 for fixed monthly payments to PSALM of SMEC, SPPC and SPDC, respectively, pursuant to the IPPA Agreements. On the same day, the BOD approved the appropriation of retained earnings of the Parent Company amounting to P7,700,000 for the payment of the US$700,000, 5-year term loan to mature in September 2018 (Note 17).

The appropriations reversed in 2015 and 2014 were used for the Group's required capital expenditures and servicing of long-term debt as intended.

Undated Subordinated Capital Securities (USCS)

The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

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

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

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

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

Details of distributions paid to USCS holders are as follows:

Year	Date of Last Payment	Amount Paid
2015	May 6	P714,616
	November 6	736,072
		P1,450,688
2014	November 6	P723,214

On February 24, 2016, the Parent Company paid distributions to USCS holders amounting to P689,223.

21. Plant Operations and Maintenance Fees and Operating Expenses

Plant operations and maintenance consist of:

	Note	**2015**	2014	2013
Plant operations and maintenance fees	*7, 18*	**P467,444**	P499,850	P194,388
Supplies and metering		**21,314**	22,510	-
Salaries, wages and employee benefits		**13,330**	41,720	-
Others		**123**	11,552	-
		P502,211	P575,632	P194,388

Operating expenses consist of:

	Note	**2015**	2014	2013
Management fees	*18*	**P1,196,789**	P456,727	P409,373
Taxes and licenses		**946,801**	406,979	110,791
Outside services		**723,269**	143,492	35,448
Rent	*4, 7, 18*	**360,091**	115,849	24,167
Corporate special program		**243,045**	127,116	106,772
Market fees	*7*	**219,681**	233,701	246,591
Salaries, wages and benefits	*18, 19*	**190,523**	149,106	121,784
Impairment losses on trade receivables	*9*	**142,658**	144,393	32,850
Repairs and maintenance		**138,067**	65,952	756
Professional fees		**124,221**	130,019	38,788
Supplies		**105,617**	46,451	28,965
Travel and transportation		**83,531**	45,467	29,643
Depreciation and amortization	*12*	**73,415**	43,774	21,749
Donations	*12*	**59,781**	662,752	240,060
Miscellaneous		**296,646**	140,152	100,013
		P4,904,135	P2,911,930	P1,547,750

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

22. Other Income (Charges)

Other income (charges) - net consists of:

	Note	**2015**	2014	2013
Foreign exchange losses - net	*26*	**(P7,582,548)**	(P813,621)	(P9,434,860)
PSALM monthly fees reduction	*7*	**1,858,506**	814,565	872,243
Miscellaneous income (charges)	*4, 7, 9*	**(202,008)**	67,281	71,555
		(P5,926,050)	P68,225	(P8,491,062)

Miscellaneous income (charges) pertain to impairment losses on other receivables, service fees from TPEC and sale of fly ash to a related party (Notes 9 and 18).

23. Income Taxes

The components of income tax expense are as follows:

	Note	**2015**	2014	2013
Current	*24*	**P2,181,771**	P1,608,293	P686,311
Deferred		**521,637**	1,085,130	(1,522,613)
		P2,703,408	P2,693,423	(P836,302)

Current income tax expense in 2015, 2014 and 2013 represents regular corporate income tax of 30% on taxable income, MCIT on gross income and final tax paid on interest income.

Deferred tax assets (liabilities) arise from the following:

	Note	**2015**	2014
Items recognized in profit or loss			
Allowance for impairment losses on trade and other receivables	*9*	**P170,443**	P60,005
Defined benefit obligation	*19*	**6,991**	-
Difference of depreciation and other related expenses over monthly payments	*7*	**(849,032)**	(324,095)
Accrued expenses and others		**(114,129)**	-
Items recognized directly in other comprehensive income			
Fair value adjustment	*13*	**(357,966)**	-
Equity reserve for retirement plan		**6,706**	-
		(P1,136,987)	(P264,090)

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

The amounts above are reported in the consolidated statements of financial position as follows:

	2015	2014
Deferred tax assets	**P2,745,943**	P2,779,380
Deferred tax liabilities	**(3,882,930)**	(3,043,470)
	(P1,136,987)	(P264,090)

As of December 31, 2015, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
Year 2015	December 31, 2018	P3,014,845	P38,415
Year 2014	December 31, 2017	2,073,953	14,230
Year 2013	December 31, 2016	2,187,455	12,766
		P7,276,253	P65,411

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2015	2014	2013
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	**30.43%**	-	-
Availment of optional standard deduction and others	**(0.78%)**	(1.91%)	20.22%
Income subject to ITH	**-**	(7.87%)	(76.30%)
Effective income tax rate	**59.65%**	20.22%	(26.08%)

24. Registrations and License

Registrations with the Board of Investments (BOI)
On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four (4) years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCPC and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for 1 year from the date of issuance. For the subsequent years, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and June 9 and August 26, 2015 to SMCPC and February 6, 2015 and February 11, 2016 to SCPC, with a validity of 1 year from the date of issuance.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration Nos. 2013-047 and 2010-181 bearing pioneer status with non-pioneer incentives from Petron to SPI. Under the Certificates of Registration, SPI is entitled to certain incentives including ITH incentives, as applicable, for the revenue generated from the sale of electricity.

License Granted by the ERC

On August 22, 2011, SMELC was granted a Retail Electricity Supplier's (RES) License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

25. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2015	2014	2013
Net income attributable to equity holders of the Parent Company	**P1,828,918**	P10,629,482	P4,042,655
Distributions to USCS holders for the year	**(1,918,382)**	(962,786)	-
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(89,464)**	9,666,696	4,042,655
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004	1,250,004
Basic/diluted EPS (a/b)	**(P0.07)**	P7.73	P3.23

As of December 31, 2015, 2014 and 2013, the Group has no dilutive debt or equity instruments.

26. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the BOD on its activities.

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 oversees how management monitors compliance with SMC's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The BOD is assisted in its oversight role by SMC's Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Interest Rate Risk

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

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 movements affect reported equity from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

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 P2,092 and P6,388 in 2015 and 2014, 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 equity.

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

December 31, 2015	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P3,892,950**	**P10,903,950**
Step-down interest rate	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**-**
Philippine peso-denominated	**171,000**	**171,000**	**171,000**	**171,000**	**171,000**	**474,750**	**1,329,750**
Step-down interest rate	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**-**
Foreign currency-denominated (expressed in Philippine peso)	**14,118,000**	**-**	**-**	**-**	**-**	**-**	**14,118,000**
Interest rate	**7%**						
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**32,942,000**	**-**	**-**	**-**	**32,942,000**
Interest rate			**LIBOR + Margin**				
	P15,691,200	**P1,573,200**	**P34,515,200**	**P1,573,200**	**P1,573,200**	**P4,367,700**	**P59,293,700**

December 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,223,850	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P5,295,150	P12,127,800
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	-
Philippine peso-denominated	149,250	171,000	171,000	171,000	171,000	645,750	1,479,000
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	-
Foreign currency-denominated (expressed in Philippine peso)	-	13,416,000	-	-	-	-	13,416,000
Interest rate		7%					
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	22,360,000	-	-	22,360,000
Interest rate				LIBOR + Margin			
	P1,373,100	P14,989,200	P1,573,200	P23,933,200	P1,573,200	P5,940,900	P49,382,800

Foreign Currency Risk
The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

		2015		2014	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*8*	**US$210,578**	**P9,909,822**	US$260,178	P11,635,160
Trade and other receivables	*9*	**81,746**	**3,846,983**	83,937	3,753,513
		292,324	**13,756,805**	344,115	15,388,673
Liabilities					
Accounts payable and accrued expenses	*16*	**278,830**	**13,121,735**	148,277	6,633,727
Finance lease liabilities	*7*	**2,057,616**	**96,831,429**	2,216,978	99,143,266
Long-term debt	*7, 17*	**1,000,000**	**47,060,000**	800,000	35,776,000
		3,336,446	**157,013,164**	3,165,255	141,552,993
Net foreign currency-denominated monetary liabilities		**US$3,044,122**	**P143,256,359**	US$2,821,140	P126,164,320

The Group reported net unrealized foreign exchange losses amounting to P7,505,369, P1,584,500 and P9,592,617 in 2015, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2015	**P47.060**
December 31, 2014	44.720
December 31, 2013	44.395

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. Foreign exchange movements affect reported equity from increases or decreases in unrealized and realized foreign exchange gains or losses.

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 monetary liabilities) for the years ended December 31:

	2015		2014	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P210,578)**	**P210,578**	(P260,178)	P260,178
Trade and other receivables	**(81,746)**	**81,746**	(83,937)	83,937
	(292,324)	**292,324**	(344,115)	344,115
Accounts payable and accrued expenses	**278,830**	**(278,830)**	148,277	(148,277)
Finance lease liabilities	**2,057,616**	**(2,057,616)**	2,216,978	(2,216,978)
Long-term debt	**1,000,000**	**(1,000,000)**	800,000	(800,000)
	3,336,446	**(3,336,446)**	3,165,255	(3,165,255)
	P3,044,122	**(P3,044,122)**	P2,821,140	(P2,821,140)

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.

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 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 as of December 31:

2015	**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	**P22,241,361**	**P22,241,361**	**P22,241,361**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**18,473,455**	**18,473,455**	**18,473,455**	**-**	**-**	**-**
Restricted cash (included under "Other noncurrent assets" account - net)	**1,311,740**	**1,311,740**	**1,311,740**	**-**	**-**	**-**
Noncurrent receivable (included under "Other noncurrent assets - net" account)	**253,812**	**253,812**	**-**	**26,418**	**87,735**	**139,659**
Financial Liabilities						
Accounts payable and accrued expenses*	**27,707,659**	**27,707,659**	**27,707,659**	**-**	**-**	**-**
Finance lease liabilities (including current portion)	**179,193,193**	**231,795,506**	**23,755,535**	**24,016,154**	**77,763,868**	**106,259,949**
Long-term debt - net (including current maturities)	**58,607,861**	**59,293,700**	**15,691,200**	**1,573,200**	**37,661,600**	**4,367,700**

**Excluding statutory receivables and payables*

2014	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	P38,304,294	P38,304,294	P38,304,294	P -	P -	P -
Trade and other receivables - net*	18,208,290	18,208,290	18,208,290	-	-	-
Restricted cash (included under "Other noncurrent assets - net" account)	1,054,801	1,054,801	1,054,801	-	-	-
Noncurrent receivable (included under "Other noncurrent assets - net" account)	179,129	179,129	-	179,129	-	-
Financial Liabilities						
Accounts payable and accrued expenses*	22,520,871	22,520,871	22,520,871	-	-	-
Finance lease liabilities (including current portion)	186,303,745	248,175,447	22,091,404	23,170,046	71,935,991	130,978,006
Long-term debt - net (including current maturities)	48,713,245	49,382,800	1,373,100	14,989,200	27,079,600	5,940,900

**Excluding statutory receivables and payables*

<u>Credit Risk</u>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the 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 customer or counterparty 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. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

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

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

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and, as applicable, 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 as of December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	2015	2014
Cash and cash equivalents (excluding cash on hand)	**P22,240,755**	P38,303,999
Trade and other receivables - net*	**18,473,455**	18,208,290
Restricted cash	**1,311,740**	1,054,801
Noncurrent receivable	**253,812**	179,129
	P42,279,762	P57,746,219

**Excluding statutory receivables*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has no significant concentration of credit risk since the Group deals with a large number of homogeneous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stockholders 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 debt and USCS (Notes 17 and 20).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

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

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

27. 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 as of December 31:

	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P22,241,361**	**P22,241,361**	P38,304,294	P38,304,294
Trade and other receivables - net*	**18,473,455**	**18,473,455**	18,208,290	18,208,290
Restricted cash (included under "Other noncurrent assets - net" account)	**1,311,740**	**1,311,740**	1,054,801	1,054,801
Noncurrent receivable (included under "Other noncurrent assets - net" account)	**253,812**	**253,812**	179,129	179,129
	P42,280,368	**P42,280,368**	P57,746,514	P57,746,514
Financial Liabilities				
Accounts payable and accrued expenses*	**P27,707,659**	**P27,707,659**	P22,520,871	P22,520,871
Finance lease liabilities (including current portion)	**179,193,193**	**179,193,193**	186,303,745	186,303,745
Long-term debt - net (including current maturities)	**58,607,861**	**59,760,982**	48,713,245	51,311,719
	P265,508,713	**P266,661,834**	P257,537,861	P260,136,335

**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), Restricted Cash, Noncurrent Receivable, Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amounts of these financial assets and financial liabilities approximate fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of noncurrent receivable is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. The discount rates used for Philippine peso-denominated loans range from 2.39% to 4.57% and from 2.54% to 4.29% as of December 31, 2015 and 2014, respectively. The discount rates used for foreign currency-denominated loans is 0.43% and range from 0.17% to 0.63% as of December 31, 2015 and 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of the long-term debt was categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable at the reporting date. The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2015 and 2014. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Finance 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.

28. 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 (Note 4).

b. 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 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 the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court 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. The TRO was extended for until September 28, 2015.

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

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset on April 14, 2016.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

c. Criminal Cases Filed by SPPC and SMEC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, 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. The case is still pending with the DOJ as of December 31, 2015.

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 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. The case is still pending with the DOJ as of December 31, 2015.

d. Temporary Restraining Order Issued to Meralco

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. 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, including SMEC and SPPC 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. Further, on December 27, 2013, the DOE, the 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 will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while 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 shall be covered by a 24-month Special Payment Arrangement (SPA) agreed with PEMC which took effect in June 2014 up to May 2016. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

e. Commitments

The outstanding purchase commitments of the Group amounted to P2,577,051 and P4,581,000 as of December 31, 2015 and 2014, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2015 and 2014 is approximately P32,704,535 and P39,379,030, respectively.

f. Electric Power Industry Reform Act of 2001

The EPIRA sets forth the following: (a) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (b) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (c) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements discussed in Note 7.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2015.

g. US$400,000 Facility Agreement

On December 29, 2015, SCPC signed a US$400,000, 7-year term loan with a syndicate of banks. Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. On March 8, 2016, an initial drawdown amount of US$250,000 was made from the Facility Agreement. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

The Facility Agreement imposes a number of covenants on the part of SCPC including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of the assets or revenues of SCPC to secure any indebtedness, subject to certain exceptions.

h. Subsequent Events

On January 14, 2016, the Parent Company has entered into a US$300,000, 6-month term loan with a local bank. The full amount of loan was drawn on January 25, 2016. Proceeds from loan were used to pay the US$300,000, 7%, 5-year note on January 26, 2016.

29. Reclassification of Account

The Parent Company and SMEC reclassified the accrual for defined benefit obligation in the 2014 and 2013 consolidated financial statements to conform to the 2015 presentation. The effect of the reclassification follows:

	December 31, 2014			December 31, 2013		
Account Description	As Previously Reported	Reclassification Add (Deduct)	As Restated	As Previously Reported	Reclassification Add (Deduct)	As Restated
Consolidated Statements of Financial Position						
Current Liabilities						
Accounts payable and accrued expenses	P28,117,804	(P16,692)	P28,101,112	P22,971,933	(P7,714)	P22,964,219
Noncurrent Liabilities						
Other noncurrent liabilities	670,486	16,692	687,178	-	7,714	7,714
Consolidated Statements of Cash Flows						
Cash Flows from Operating Activities						
Retirement benefit expense	-	8,978	8,978	-	7,714	7,714
Increase in accounts payable and accrued expenses	5,145,871	(8,978)	5,136,893	3,128,087	(7,714)	3,120,373

The Group believes that the presentation of a third statement of financial position as of January 1, 2014 is not relevant as the adjustment has no significant effect on the consolidated statement of financial position as of January 1, 2014.

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.

We have audited the accompanying consolidated financial statements of SMC Global Power Holdings Corp. (a wholly-owned subsidiary of San Miguel Corporation) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of SMC Global Power Holdings Corp. and Subsidiaries as at December 31, 2014 and 2013, and the consolidated financial performance and consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

R.G. Manabat & Co.

March 25, 2015
Makati City, Metro Manila

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousands)

		December 31	
	Note	**2014**	2013
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 25, 26*	**P38,304,294**	P29,125,171
Trade and other receivables - net	*4, 9, 18, 25, 26*	**18,208,339**	31,540,444
Inventories	*4, 10*	**1,365,033**	1,499,135
Prepaid expenses and other current assets	*7, 11*	**9,137,202**	7,234,892
Total Current Assets		**67,014,868**	69,399,642
Noncurrent Assets			
Property, plant and equipment - net	*4, 12*	**228,133,323**	217,021,519
Investments and advances - net	*4, 13*	**10,612,277**	6,011,799
Deferred exploration and development costs	*4, 6*	**671,783**	525,999
Goodwill and other intangible assets	*4, 6, 14*	**2,322,241**	1,728,592
Deferred tax assets	*4, 22*	**2,779,380**	2,909,105
Other noncurrent assets - net	*15, 25, 26*	**2,215,415**	3,506,310
Total Noncurrent Assets		**246,734,419**	231,703,324
		P313,749,287	P301,102,966
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*13, 16, 18, 25, 26*	**P28,117,804**	P22,971,933
Finance lease liabilities - current portion	*4, 7, 25, 26*	**16,205,224**	15,630,430
Current portion of long-term debt - net of debt issue costs	*17, 25, 26*	**1,330,037**	142,403
Income tax payable		**151,360**	218,519
Total Current Liabilities		**45,804,425**	38,963,285
Noncurrent Liabilities			
Long-term debt - net of current portion and debt issue costs	*17, 25, 26*	**47,383,208**	46,946,482
Finance lease liabilities - net of current portion	*4, 7, 25, 26*	**170,098,521**	179,372,291
Deferred tax liabilities	*22*	**3,043,470**	2,088,065
Other noncurrent liabilities - net of current portion	*16*	**670,486**	-
Total Noncurrent Liabilities		**221,195,685**	228,406,838
		267,000,110	267,370,123

Forward

	Note	2014	2013
		December 31	
Equity	*19*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Undated subordinated capital securities		**13,110,066**	-
Retained earnings		**29,301,328**	29,395,060
Reserves		**785,279**	785,279
Total Equity		**46,749,177**	33,732,843
		P313,749,287	P301,102,966

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data)

		Years Ended December 31	
	Note	**2014**	2013
REVENUES	*5, 7, 18, 27*		
Sale of power		**P80,080,157**	P73,882,922
Sale of electricity		**4,213,433**	160,865
		84,293,590	74,043,787
COST AND EXPENSES			
Cost of power sold:			
Energy fees	*7*	**30,775,896**	31,269,293
Coal, fuel oil and other consumables	*7, 10, 18*	**11,945,280**	11,179,322
Depreciation and amortization	*12*	**6,143,866**	5,382,435
Power purchases	*7*	**6,045,468**	3,929,184
Plant operations and maintenance fees		**575,632**	194,388
Operating expenses	*7, 18, 20*	**2,911,930**	1,547,750
		58,398,072	53,502,372
		25,895,518	20,541,415
INTEREST INCOME		**549,977**	447,843
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 17*	**(13,168,470)**	(12,673,891)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES - Net	*13*	**(22,345)**	795,004
GAIN ON SALE OF INVESTMENT	*13*	**-**	2,587,044
OTHER INCOME (CHARGES) - Net	*21*	**68,225**	(8,491,062)
INCOME BEFORE INCOME TAX		**13,322,905**	3,206,353
INCOME TAX EXPENSE (BENEFIT) - Net	*22, 23*	**2,693,423**	(836,302)
NET INCOME		**P10,629,482**	P4,042,655
Basic/Diluted Earnings Per Share	*24*	**P8.50**	P3.23

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

		Years Ended December 31	
	Note	**2014**	2013
NET INCOME		**P10,629,482**	P4,042,655
OTHER COMPREHENSIVE INCOME			
ITEM THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Share in other comprehensive income of an associate, net of disposal	*13, 19*	**-**	39,306
TOTAL COMPREHENSIVE INCOME		**P10,629,482**	P4,081,961

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	Capital Stock (Note 19)	**Additional Paid-in Capital**	**Retained Earnings** (Note 19)	**Undated Subordinated Capital Securities** (Note 19)	**Reserves** (Note 19)	**Total Equity**
Balance as of January 1, 2014	**P1,062,504**	**P2,490,000**	**P29,395,060**	**P -**	**P785,279**	**P33,732,843**
Issuance of undated subordinated capital securities	**-**	**-**	**-**	**13,110,066**	**-**	**13,110,066**
Net income for the year / total comprehensive income	**-**	**-**	**10,629,482**	**-**	**-**	**10,629,482**
Dividends declared	**-**	**-**	**(10,000,000)**	**-**	**-**	**(10,000,000)**
Distributions paid	**-**	**-**	**(723,214)**	**-**	**-**	**(723,214)**
Balance as of December 31, 2014	**P1,062,504**	**P2,490,000**	**P29,301,328**	**P13,110,066**	**P785,279**	**P46,749,177**
Balance as of January 1, 2013	P1,062,504	P2,490,000	P29,852,405	P -	P745,973	P34,150,882
Share in other comprehensive income of an associate, net of tax	-	-	-	-	39,306	39,306
Net income for the year	-	-	4,042,655	-	-	4,042,655
Total comprehensive income	-	-	4,042,655	-	39,306	4,081,961
Dividends declared	-	-	(4,500,000)	-	-	(4,500,000)
Balance as of December 31, 2013	P1,062,504	P2,490,000	P29,395,060	P -	P785,279	P33,732,843

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

		Years Ended December 31	
	Note	**2014**	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P13,322,905**	P3,206,353
Adjustments for:			
Interest expense and other financing charges	*7, 17*	**13,168,470**	12,673,891
Depreciation and amortization	*7, 12*	**6,187,640**	5,404,184
Unrealized foreign exchange losses - net	*25*	**1,584,500**	9,592,617
Impairment losses on trade receivables	*9*	**144,393**	32,850
Equity in net earnings (losses) of associates and joint ventures - net	*13*	**22,345**	(795,004)
Interest income		**(549,977)**	(447,843)
Gain on sale of investment	*13*	**-**	(2,587,044)
Operating income before working capital changes		**33,880,276**	27,080,004
Decrease (increase) in:			
Trade and other receivables - net	*9*	**(3,037,652)**	(1,633,834)
Inventories	*10*	**134,102**	(314,185)
Prepaid expenses and other current assets	*11*	**(1,902,310)**	(240,126)
Other noncurrent assets	*15*	**1,290,895**	(1,789,482)
Increase in:			
Accounts payable and accrued expenses	*16*	**5,145,871**	3,128,087
Other noncurrent liabilities		**670,486**	-
Cash generated from operations		**36,181,668**	26,230,464
Interest income received		**546,350**	527,661
Finance cost paid	*17*	**(2,196,778)**	(800,071)
Income taxes paid		**(1,675,452)**	(294,055)
Net cash flows provided by operating activities		**32,855,788**	25,663,999
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment	*9, 13*	**16,228,991**	-
Net additions to property, plant and equipment	*12*	**(17,299,444)**	(19,122,531)
Additions to investments and advances	*13*	**(4,622,823)**	(2,145,936)
Additions to intangible assets	*14*	**(593,649)**	-
Deferred exploration and development costs	*6*	**(145,784)**	(200,780)
Dividends received	*13*	**-**	704,407
Net cash flows used in investing activities		**(6,432,709)**	(20,764,840)

Forward

		Years Ended December 31	
	Note	**2014**	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of undated subordinated capital securities		**P13,110,066**	P -
Proceeds from long-term debt	*17*	**1,500,000**	33,191,756
Payments of finance lease liabilities	*7*	**(20,123,987)**	(19,146,035)
Dividends paid	*19*	**(10,000,000)**	(4,500,000)
Distributions to undated subordinated capital securities holders	*19*	**(723,214)**	-
Payment of long-term debt	*17*	**(193,200)**	(8,708,000)
Net cash flows provided by (used in) financing activities		**(16,430,335)**	837,721
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(813,621)**	(167,154)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,179,123**	5,569,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**29,125,171**	23,555,445
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P38,304,294**	P29,125,171

See Notes to the Consolidated Financial Statements.

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, lease, develop 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's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group).

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 in the Philippine Stock Exchange (PSE).

The Parent Company's subsidiaries, primarily engaged in power generation and retail power-related services, are incorporated in the Philippines and registered with the Philippine SEC. The subsidiaries are as follows:

		Percentage of Ownership	
	Note	**2014**	2013
Power Generation	*7, 18*		
San Miguel Energy Corporation (SMEC)		**100**	100
South Premiere Power Corp. (SPPC)		**100**	100
Strategic Power Devt. Corp. (SPDC)		**100**	100
SMC PowerGen Inc. (SPI)		**100**	100
Limay Power Generation Corporation [(c)]		**100**	100
SMC Consolidated Power Corporation (SCPC) [(b)]		**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(b)]		**100**	100
PowerOne Ventures Energy Inc. (PVEI)		**100**	100
Retail and Power-related Service Provider	*7*		
San Miguel Electric Corp. (SMELC)		**100**	100
SMC Power Generation Corp. (SPGC)		**100**	100
Albay Power and Energy Corp. (APEC)		**100**	100
Others - Coal Mining	*6*		
Daguma Agro-Minerals, Inc. (DAMI) [(a)]		**100**	100
Sultan Energy Phils. Corp. (SEPC) [(a)]		**100**	100
Bonanza Energy Resources, Inc. (BERI) [(a)]		**100**	100

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2014.
(b) Construction of power plants on-going as of December 31, 2014.
(c) Incorporated on February 19, 2013; indirectly owned by the Parent Company through SPI and has not yet started commercial operation as of December 31, 2014.

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements are also prepared to comply with the requirements under Section 4.12, *Provision of Financial Statements and Reports,* of the US$300,000 7% Notes due 2016 issued by the Parent Company (Note 17).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 25, 2015.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting.

Functional and Presentation Currency

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

Basis of Consolidation

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group 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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the consolidated financial statements.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards and new interpretation starting January 1, 2014. Except as otherwise indicated, the adoption of these amendments to standards and interpretation did not have any significant impact on the Group's consolidated financial statements.

Amendments to Standards and Interpretations Adopted in 2014

The Group has adopted the following PFRS effective January 1, 2014:

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32, Financial Instruments).* These amendments clarify that:

  - an entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and

  - gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

- Recoverable Amount Disclosures for Non-Financial Assets *(Amendments to PAS 36).* These narrow-scope amendments to PAS 36, *Impairment of Assets,* address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

- Measurement of Short-term Receivables and Payables *(Amendment to PFRS 13).* Amendment to PFRS 13, *Fair Value Measurement*, is part of the Annual Improvements to PFRS 2010-2012 Cycle. The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9, *Financial Instruments*, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The amendment to PFRS 13 is effective immediately.

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. However, the Group has not applied the following new or amended standards in preparing the consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective July 1, 2014

- Defined Benefit Plans: Employee Contributions *(Amendments to PAS 19).* The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

  The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

- Annual Improvements to PFRS: 2010 - 2012 and 2011 - 2013 Cycles - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRS would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, *Share-based Payment,* PAS 16, *Property, Plant and Equipment,* PAS 38, *Intangible Assets,* and PAS 40, *Investment Property*. The following are the said improvements or amendments to PFRS which are applicable to the Group:

  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2).* PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition.' The amendment also clarifies both: how to distinguish between a market and a non-market performance condition; and the basis on which a performance condition can be differentiated from a non-vesting condition.

  - Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements,* - i.e. including joint operations - in the financial statements of the joint arrangements themselves.

  - Disclosures on the Aggregation of Operating Segments *(Amendment to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Scope of Portfolio Exception *(Amendment to PFRS 13).* The scope of the PFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of PAS 39 and PFRS 9.

  PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32, *Financial Instruments: Presentation,* - e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- Definition of 'Related Party' *(Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24, *Related Party Disclosures.*

Effective January 1, 2016

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16 and PAS 38).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

  The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- 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 between the requirements in PFRS 10, *Consolidated Financial Statements,* and in PAS 28, *Investments in Associates and Joint Ventures*, 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.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

Effective January 1, 2018

- PFRS 9 (2014). PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

  The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

<u>Financial Assets and Financial Liabilities</u>
Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using trade date accounting.

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

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

Financial Assets

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

As of December 31, 2014 and 2013, the Group has no financial assets accounted for under this category.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 8, 9, 15 and 26).

HTM Investments. HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.

As of December 31, 2014 and 2013, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserves" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

As of December 31, 2014 and 2013, the Group has no financial assets accounted for under this category.

Financial Liabilities

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

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

As of December 31, 2014 and 2013, the Group has no financial liabilities accounted for under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses (excluding statutory payables), finance lease liabilities and long-term debt are included under this category (Notes 7, 16, 17 and 26).

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized as at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

<u>Impairment of Financial Assets</u>
The Group assesses, at the reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the expected future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows from the asset discounted using the historical effective rate of return on the asset.

Classification of Financial Instruments between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument 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.

Debt Issue Costs

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

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

Inventories
Inventories are measured at the lower of cost and net realizable value. Cost is determined using first-in-first-out method for materials and supplies, specific identification method or moving average method for coal inventories and moving average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

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

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

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

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

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

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

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

- *Intangible Asset Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as of the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

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

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

- *Loss of Control*
  On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Transactions under Common Control
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

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

Investments in an Associate and Joint Venture

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies 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 arrangement. 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 an associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in 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 the profit or loss of the associate or joint venture is recognized as “Equity in net earnings (losses) of associates and joint ventures - net” 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 the changes in the associate or joint venture’s other comprehensive income. The Group’s share of those changes is recognized as “Share in other comprehensive income 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 with respect to the Group’s net investment in the associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying amount. Such impairment loss is recognized as part of “Equity in net earnings (losses) of associates and joint ventures - net” 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 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 profit or loss.

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

Property, Plant and Equipment

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

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

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

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

	Number of Years
Power plants	10 - 43
Building	15 - 25
Other equipment	2 - 15
Leasehold improvements	5 - 10 or term of the lease whichever is shorter

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

	Number of Years
Concession right	25
Computer software and licenses	2 - 8

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

Intangible Asset - Power Concession Right

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

The Interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service agreement.

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

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

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of concession assets are recognized in profit or loss and measured as the difference between the net disposal proceeds and the carrying amount of the concession assets.

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

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts,* and PAS 18, *Revenue,* for the services it performs. If an entity performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

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

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

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

Intangible Assets - Mining Rights
The Group's mining rights that are acquired by the Group and have finite lives are measured at costs less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Amortization of mining rights is recognized in profit or loss on a straight-line basis over the estimated useful lives. The estimated useful lives of mining rights pertain the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

Gains or loss from derecognition of mining rights are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in profit or loss.

<u>Deferred Exploration and Development Costs</u>
Deferred exploration and development costs comprise of expenditures which are directly attributable to:

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

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

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

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

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

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and goodwill and other intangible assets with finite useful lives reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

Concession Payable

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

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

Fair Value Measurements

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 in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

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

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

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 purposes of the fair value disclosure, 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 fair value hierarchy, as explained above.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Share Capital

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

Undated Subordinated Capital Securities

Undated subordinated capital securities are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power. Revenue from power generation is recognized in the period when actual power or capacity is generated, transmitted or/and made available to the customers, net of related discounts.

Sale of Electricity. Revenues are recognized upon the supply of power to the customers. The Uniform Filing Requirements (UFR) on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustment I and II, where applicable and (h) interclass and life subsidies. VAT, local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized if the Group disposes of its investments in a subsidiary, associate or joint venture. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition

Costs and Expenses. Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, or/and trading.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on finance lease liabilities, loans, concession payable and other borrowings. Finance charges on finance lease liabilities, loans and concession payable are recognized in profit or loss using the effective interest method.

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

Share-based Payment Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments direct to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is charged to operations by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based transactions at each reporting date until the date when the relevant employees become fully entitled to the award (the "vesting date") reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest.

Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

Lease payments are apportioned between the financing charges and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liabilities. Financing charges are recognized in profit or loss.

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

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

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

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Foreign Currency Translations
Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

Value-added Tax. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

Related Parties

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

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company by the weighted-average number of issued and outstanding common shares during the period.

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

As at December 31, 2014 and 2013, the Group has no dilutive equity instruments as disclosed in Note 24 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately based on the fuel source of the power plants, with each segment representing a strategic business unit that has different economic characteristic and activities. The BOD (the chief operating decision maker; CODM) reviews management reports on a regular basis.

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 12).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P186,303,745 and P195,002,721 as of December 31, 2014 and 2013, respectively (Note 7).

The combined carrying amounts of power plants under finance lease amounted to P188,132,700 and P193,319,103 as of December 31, 2014 and 2013, respectively (Note 12).

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

Rent income recognized in the consolidated statements of income amounted to P18,434 and nil in 2014 and 2013, respectively.

Rent expense recognized in the consolidated statements of income amounted to P115,849 and P24,167 in 2014 and 2013, respectively (Note 20).

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

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation and should be accounted for under the intangible asset model (Notes 3, 7 and 14).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group's management and legal counsels currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 27).

Estimates and Assumptions

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

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 26.

The Group has no financial asset or financial liability carried at fair values as of December 31, 2014 and 2013.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P866,686 and P722,293 as of December 31, 2014 and 2013, respectively. The carrying amount of trade and other receivables amounted to P18,208,339 and P31,540,444 as of December 31, 2014 and 2013, respectively (Note 9).

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

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

The Group assessed that no write-down of inventories to reduce inventories to net realizable value is necessary as of December 31, 2014 and 2013.

The carrying amount of inventories amounted to P1,365,033 and P1,499,135 as of December 31, 2014 and 2013, respectively (Note 10).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P228,133,323 and P217,021,519 as of December 31, 2014 and 2013, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P27,404,427 and P21,233,181 as of December 31, 2014 and 2013, respectively (Note 12).

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

Intangible assets with finite useful lives amounted to P2,313,375 and P1,719,726 as of December 31, 2014 and 2013, respectively (Note 14).

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

The carrying amount of goodwill amounted to P8,866 as of December 31, 2014 and 2013 (Note 14).

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

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

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

The Group's mining activities are all in the exploratory stages as of December 31, 2014. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2014 and 2013.

Deferred exploration and development costs amounted to P671,783 and P525,999 as of December 31, 2014 and 2013, respectively (Note 6).

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

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 22).

Deferred tax assets from temporary differences amounted to P2,779,380 and P2,909,105 as of December 31, 2014 and 2013, respectively (Note 22).

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

The Group assessed that its non-financial assets are not impaired as of December 31, 2014 and 2013.

The combined carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P241,730,758 and P225,279,043 as of December 31, 2014 and 2013, respectively (Notes 6, 12, 13 and 14).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2014 and 2013.

5. Segment Information

Operating Segments
The Group's operations are segmented based on fuel source of the power plants consistent with the reports prepared internally for use by the Group's CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the exploratory stage of mining activities (Note 6). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2014 and 2013, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

The Group's inter-segment sales of power are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Segment assets do not include investments and advances, goodwill and other intangible assets and deferred tax assets. The investment in Manila Electric Company (Meralco) and subsequent transactions affecting investment in Meralco are presented under "Others". Segment liabilities do not include long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

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

Major Customers
The Group sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

Customers	**2014**	2013
Meralco	**P47,233,747**	P46,952,999
WESM	**9,622,839**	10,770,643

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

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31											
	Power Generation		Retail and Other Power Related Service Provider		Coal Mining Companies		Others		Eliminations		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Sale of Power												
External	**P80,080,157**	P73,882,922	**P4,213,433**	P160,865	**P -**	P -	**P -**	P -	**P -**	P -	**P84,293,590**	P74,043,787
Inter-segment	**4,872,675**	2,103,653	**-**	-	**-**	-	**-**	-	**(4,872,675)**	(2,103,653)	**-**	-
	84,952,832	75,986,575	**4,213,433**	160,865	**-**	-	**-**	-	**(4,872,675)**	(2,103,653)	**84,293,590**	74,043,787
Cost and Expenses												
Cost of power sold	**56,304,969**	53,919,111	**4,053,848**	139,164	**-**	-	**-**	-	**(4,872,675)**	(2,103,653)	**55,486,142**	51,954,622
Operating expenses	**2,610,578**	1,635,443	**37,204**	7,951	**23,919**	15,345	**855,229**	504,093	**(615,000)**	(615,082)	**2,911,930**	1,547,750
	58,915,547	55,554,554	**4,091,052**	147,115	**23,919**	15,345	**855,229**	504,093	**(5,487,675)**	(2,718,735)	**58,398,072**	53,502,372
Segment Result	**26,037,285**	20,432,021	**122,381**	13,750	**(23,919)**	(15,345)	**(855,229)**	(504,093)	**615,000**	615,082	**25,895,518**	20,541,415
Gain on sale of investment											**-**	2,587,044
Equity in net earnings (losses) of associates and joint ventures - net											**(22,345)**	795,004
Interest income											**549,977**	447,843
Interest expense and other financing charges											**(13,168,470)**	(12,673,891)
Other income (charges) - net											**68,225**	(8,491,062)
Income tax benefit (expense)											**(2,693,423)**	836,302
Consolidated Net Income											**P10,629,482**	P4,042,655

	For the Years Ended December 31											
	Power Generation		Retail and Other Power Related Service Provider		Coal Mining Companies		Others		Eliminations		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Other Information												
Segment assets	**P249,910,569**	P253,043,075	**P2,419,373**	P392,316	**P683,275**	P623,242	**P54,959,742**	P38,419,420	**(P9,937,570)**	(P2,024,583)	**P298,035,389**	P290,453,470
Investments and advances	**157,146**	136,669	**191,549**	259,834	**-**	-	**10,263,582**	5,615,296	**-**	-	**10,612,277**	6,011,799
Intangible assets and goodwill											**2,322,241**	1,728,592
Deferred tax assets											**2,779,380**	2,909,105
Consolidated Total Assets											**P313,749,287**	P301,102,966
Segment liabilities	**P213,093,977**	P218,575,799	**P2,081,602**	P79,249	**P74,665**	P65,238	**P9,878,869**	P1,255,091	**(P10,037,078)**	(P2,000,723)	**P215,092,035**	P217,974,654
Long-term debt											**48,713,245**	47,088,885
Income tax payable											**151,360**	218,519
Deferred tax liabilities											**3,043,470**	2,088,065
Consolidated Total Liabilities											**P267,000,110**	P267,370,123
Capital expenditures	**P38,878**	P121,438	**P -**	P -	**P15,087**	P52,425	**P17,425,124**	P18,948,668	**P -**	P -	**P17,479,089**	P19,122,531
Depreciation and amortization of property, plant and equipment and intangible assets	**6,143,959**	5,382,435	**14,686**	75	**18,098**	9,139	**10,897**	6,125	**-**	-	**6,187,640**	5,397,774
Noncash items other than depreciation*	**1,027,398**	7,976,155	**11,074**	41,373	**(23)**	-	**87,776**	1,491,555	**-**	-	**1,126,225**	9,509,083

**Noncash items other than depreciation and amortization include unrealized foreign exchange gain/losses, impairment losses on receivables and equity in net earnings of associates.*

6. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	2014	2013
Balance at beginning of year	**P525,999**	P325,219
Additions	**145,784**	200,780
Balance at end of year	**P671,783**	P525,999

SMEC acquired DAMI, SEPC and BERI in 2010 resulting in the recognition of mining rights of P1,719,726 (Note 14).

DAMI's coal property covered by Coal Operating Contract (COC) No. 126, issued by the Department of Energy (DOE), is located in South Cotabato and consists of two (2) coal blocks with a total area of two thousand (2,000) hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about ninety-four (94) million metric tons as of December 31, 2014.

SEPC has a coal mining property and right over an aggregate area of seven thousand (7,000) hectares, more or less, composed of seven (7) coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2014, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about thirty-five (35) million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani Province and South Cotabato consisting of eight (8) coal blocks with a total area of eight thousand (8,000) hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about twenty three (23) million metric tons as of December 31, 2014.

<u>Status of Operations</u>
In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

In May 2011, DAMI, SEPC and BERI separately requested to the DOE for a moratorium on suspension of the implementation of the production timetable as specified in the Five-Year Development and Productive Work Progress of COC Nos. 126, 134 and 138 due to the newly enacted Environment Code of South Cotabato which prohibits open pit mining and other related activities, hence, constrained these companies into implementing the production timetable without violating this local ordinance. On April 27, 2012, the DOE granted DAMI, SEPC and BERI's request for a moratorium on their work commitments from the effective dates of their respective COCs when these were converted to Development/Production Phase until December 31, 2012.

On December 27, 2012, DAMI, SEPC and BERI submitted separately their Five-Year Work Program (WP) to the DOE. The DOE, however, imposed certain requirements before it can further process the WP. On August 8, 2013, DAMI, SEPC and BERI resubmitted the Five-Year WP incorporating additional requirements of the DOE.

On April 29, 2014, DAMI, SEPC and BERI requested for a suspension of their work commitments under their respective COCs until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On January 26, 2015, the DOE granted the request.

As of December 31, 2014, DAMI, SEPC and BERI are in the exploratory stages of their mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded recoverable amount as of December 31, 2014 and 2013.

7. Agreements

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

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

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric 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 National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (R.A.) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for fifteen (15) years until October 1, 2024, eighteen (18) years until April 26, 2028 and twelve (12) years until June 26, 2022, respectively. Energy fees for 2014 and 2013 amounted to P30,775,896 and P31,269,293, respectively. SMEC, SPDC and SPPC renewed their performance bonds in United States dollar (US$) amounting to US$58,187, US$20,305 and US$60,000 which will expire on November 3, 2015, January 25, 2015 and June 16, 2015, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2016.

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense in 2014 and 2013 amounted to P10,717,606 and P10,983,520, respectively.

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

2014	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$238,557**	**P10,668,258**	**P11,423,146**	**P22,091,404**
More than one year and not later than five years	**1,027,007**	**45,927,750**	**49,178,287**	**95,106,037**
Later than five years	**1,413,789**	**63,224,641**	**67,753,365**	**130,978,006**
	2,679,353	**119,820,649**	**128,354,798**	**248,175,447**
Less: Future finance charges on finance lease liabilities	**462,375**	**20,677,383**	**41,194,319**	**61,871,702**
Present values of finance lease liabilities	**US$2,216,978**	**P99,143,266**	**P87,160,479**	**P186,303,745**

2013	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than one year	US$218,026	P9,679,245	P10,437,649	P20,116,894
More than one year and not later than five years	997,500	44,283,990	47,765,439	92,049,429
Later than five years	1,681,853	74,665,869	80,589,359	155,255,228
	2,897,379	128,629,104	138,792,447	267,421,551
Less: Future finance charges on finance lease liabilities	546,958	24,282,163	48,136,667	72,418,830
Present values of finance lease liabilities	US$2,350,421	P104,346,941	P90,655,780	P195,002,721

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

2014	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$194,970**	**P8,719,059**	**P7,486,165**	**P16,205,224**
More than one year and not later than five years	**764,915**	**34,206,990**	**26,604,935**	**60,811,925**
Later than five years	**1,257,093**	**56,217,217**	**53,069,379**	**109,286,596**
	US$2,216,978	**P99,143,266**	**P87,160,479**	**P186,303,745**

2013	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than one year	US$185,176	P8,220,890	P7,409,540	P15,630,430
More than one year and not later than five years	771,027	34,229,759	27,918,504	62,148,263
Later than five years	1,394,218	61,896,292	55,327,736	117,224,028
	US$2,350,421	P104,346,941	P90,655,780	P195,002,721

b. Market Participation Agreements (MPA)

SMEC, SPDC and SPPC entered into a MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the Energy Regulatory Commission (ERC). For the years ended December 31, 2014 and 2013, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P233,701 and P246,591, respectively (Note 20).

In March 2013, SMELC entered into a MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2015, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SMELC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers like electric cooperatives are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. However, as stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC, SPDC and APEC purchase power from WESM and other power generation companies during periods when the power generated from the power plant is not sufficient to meet customers' power requirements.

d. Coal Supply Agreements

SMEC and SPI have supply agreements with various coal suppliers for their power plants' coal requirements.

e. Operations and Maintenance (O&M) Services Agreement

In exchange for the O&M services rendered by Petron Corporation (Petron), SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of the power plant. The agreement is effective for 25 years from September 2013 until 2038.

f. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from related parties and WESM. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. However, as stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy with adjustments if customer has not fully taken or failed to consume the contracted capacity.

g. Lease Agreements

i. The Group has operating lease agreements with San Miguel Properties, Inc. (SMPI), a related party under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.

ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVRC), a related party under common control. The existing lease agreement is for 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3% escalation rate for the 4 years following the negotiation under the lease terms.

iii. SMEC has operating lease agreement with Challenger Aero Air Corporation (Challenger), a related party under common control, for a period of 1 year commencing in October 2014 and expiring in September 2015.

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

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

	2014	2013
Within one year	**P24,361**	P23,270
After one year but not more than five years	**37,928**	62,289
	P62,289	P85,559

Rent expense recognized in the consolidated statements of income amounted to P115,849 and P24,167 in 2014 and 2013, respectively (Note 20).

iv. During the year, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc. a related party under common control, for a period of 2 years which is renewable upon agreement between the parties.

Future minimum lease receivables under the non-cancellable operating sub-lease is as follows:

	2014
Within one year	**P7,120**
After one year but not more than five years	**3,957**
	P11,077

Rent income recognized in the consolidated statements of income amounted to P18,434 and nil in 2014 and 2013, respectively.

h. Concession Agreement

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

The Concession Agreement include, among others, the following rights and obligations: i) the Parent Company, through Albay Power and Energy Corp. (APEC), assumed all the rights and interests and perform the obligations under the Concession Agreement effective on January 3, 2014; ii) as Concession Fee, the Concessionaire shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement; (b) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); iii) if the net cash flow of APEC is positive within five (5) years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iv) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and v) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO turned over the operations to APEC on February 26, 2014.

Part of the separation pay under “ii (a)” above in the amount of P80,000 has been paid to ALECO on December 19, 2013. The payment was recognized as part of “Other noncurrent assets” account in the consolidated statements of financial position pending assumption by APEC of the Concession Agreement.

The Group recognized as intangible asset all costs directly related to the Concession Agreement. The intangible asset consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P111,995 and nil as of December 31, 2014 and 2013, respectively. Interest expense on concession payable recognized in profit or loss amounted to P4,769 and nil for the years ended December 31, 2014 and 2013, respectively. Amortization of concession assets recognized in profit or loss in 2014 and 2013 amounted to P14,610 and nil, respectively.

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

	2014
Not later than 1 year	**P2,146**
Later than 1 year but not later than 5 years	**9,929**
More than 5 years	**96,969**
Ending balance	**P109,044**

The movements in concession asset relating to the Concession Agreement are as follows:

	Note	**2014**
Cost		
Balance at beginning of year		**P -**
Additions		**496,312**
Balance at end of year		**496,312**
Accumulated amortization		
Balance at beginning of year		**-**
Amortization		**14,610**
Balance at end of year		**14,610**
Net carrying amount	*14*	**P481,702**

i. MOA with San Roque Power Corporation (SRPC)

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

Revenue from sale of capacity of the San Roque Power Plant amounted to P1,488,437 and P577,192 as of December 31, 2014 and 2013, respectively, and was recognized as part of "Sale of power" account in the consolidated statements of income.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2014	2013
Cash in banks and on hand		**P9,043,630**	P13,330,802
Short-term investments		**29,260,664**	15,794,369
	25, 26	**P38,304,294**	P29,125,171

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	2014	2013
Trade	*18*	**P13,195,630**	P12,753,539
Other receivables	*18*	**5,879,395**	19,509,198
		19,075,025	32,262,737
Less allowance for impairment losses		**866,686**	722,293
		P18,208,339	P31,540,444

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 VAT on the sale of power collectible from customers.

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

	Note	2014	2013
Balance at beginning of year		**P722,293**	P689,443
Charges for the year	*20*	**144,393**	32,850
Balance at end of year		**P866,686**	P722,293

As of December 31, the aging of trade receivables is as follows:

	2014	2013
Current	**P6,703,992**	P6,625,563
Past due		
Less than 30 days	**1,125,712**	2,574,000
30-60 days	**574,608**	437,877
61-90 days	**194,855**	144,861
Over 90 days	**4,596,463**	2,971,238
	P13,195,630	P12,753,539

The Group believes that the unimpaired amounts that are past due by more than 30 days 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. There were no write-offs or reversals in 2014 and 2013.

Other receivables include the following:

a. The Parent Company's receivable from the sale of investment in an associate amounting to P16,228,991. The Parent Company collected the receivable from J.G. Summit Holdings, Inc. (J.G. Summit) in 2014 (Note 13).

b. Advances to suppliers pertain to the deposits made to certain suppliers for the ongoing construction of two (2) x 150 Mega Watt (MW) Coal-Fired Power Plant.

c. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid to Caason Australian dollar (AUD) 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the "Deposit") with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the "Amount Due"), pursuant to the terms of the MOA.

   On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. As of December 31, 2014, HCML and Caason has paid a total amount of P119,841, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to P118,824 and P25,015 as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, total outstanding receivables from HCML amounted to P566,155 and P562,041, respectively.

d. Pursuant to the MOA in respect of excess capacity of Sual Power Station, SMEC has receivables from Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (TSC) for their share in fuel, market fees, coal and other charges related to the operation of the Sual Power Plant amounting to P59,871 and P30,267 as of December 31, 2014 and 2013, respectively. Likewise, SMEC has receivables from WESM for the account of TPEC amounting to P926,583 and P444,463 as of December 31, 2014 and 2013, respectively.

e. As of December 31, 2014 and 2013, the outstanding claims from PSALM due to monthly payments reduction amounted to nil and P355,175, respectively (Note 7).

f. The balance mainly pertains to receivables from customers related to power rate adjustments which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	**2014**	2013
Coal	*7, 18*	**P1,179,585**	P1,381,589
Fuel oil	*18*	**93,402**	114,356
Materials and supplies		**86,242**	-
Other consumables		**5,804**	3,190
		P1,365,033	P1,499,135

There were no inventory write-downs to net realizable value for the years ended December 31, 2014 and 2013. Inventories charged to cost of power sold amounted to P11,945,280 and P11,179,322 in 2014 and 2013, respectively.

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2014**	2013
Input VAT		**P7,389,026**	P6,058,256
Prepaid tax		**1,296,666**	933,774
Prepaid rent and others	*7, 18*	**451,510**	242,862
		P9,137,202	P7,234,892

Input VAT consists of current and deferred Input VAT on purchases and can be offset against the output VAT payable (Note 16).

Prepaid tax consists of creditable withholding taxes and excess tax credits of the Group from prior years.

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants (Note 7)	Building	Leasehold Improvements	Other Equipment	Construction in Progress	Total
Cost						
January 1, 2013	P214,319,759	P -	P -	P43,275	P4,769,135	P219,132,169
Additions	7,441,107	3,480,934	332,251	917,483	6,950,756	19,122,531
Reclassifications	-	-	14,351	-	(14,351)	-
December 31, 2013	221,760,866	3,480,934	346,602	960,758	11,705,540	238,254,700
Additions	-	-	46	98,542	17,380,501	17,479,089
Disposals	-	-	-		(82,420)	(82,420)
Reclassifications	5,027,966	2,350,163	-	98,776	(7,590,524)	(113,619)
December 31, 2014	**226,788,832**	**5,831,097**	**346,648**	**1,158,076**	**21,413,097**	**255,537,750**
Accumulated Depreciation and Amortization						
January 1, 2013	15,814,253	-	-	14,744	-	15,828,997
Additions	5,312,454	45,193	9,750	36,787	-	5,404,184
December 31, 2013	21,126,707	45,193	9,750	51,531	-	21,233,181
Additions	5,803,956	220,638	36,481	110,171	-	6,171,246
December 31, 2014	**26,930,663**	**265,831**	**46,231**	**161,702**	**-**	**27,404,427**
Carrying Amount						
December 31, 2013	P200,634,159	P3,435,741	P336,852	P909,227	P11,705,540	P217,021,519
December 31, 2014	**P199,858,169**	**P5,565,266**	**P300,417**	**P996,374**	**P21,413,097**	**P228,133,323**

On September 23, 2013, SPI acquired from Petron a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant in Bataan, for a total consideration of P16,800,000, inclusive of tax (Note 18). The power plant is used as collateral in securing a loan obtained by SPI from syndicated banks (Note 17).

Construction in progress pertains to the following:

a. Power plant project of SMCPC and SCPC for the construction of Coal-Fired Power Plants in Davao and Bataan, respectively;

b. Construction of limestone pulverizing plant and petcoke handling facilityof SPI.

SMEC, as IPP Administrator, and TSC, as IPP and operator of the Sual Power Plant, intend to improve the coal receiving and unloading capability of the Sual Power Plant as well as increase the coal shipment deliveries thereto (Note 7).

On September 9, 2014, SMEC agreed to provide an additional coal unloader (the "Third Unloader") to the Sual Power Plant while TSC agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the parties' intention to improve unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024 and is recognized under "Donations" account in the consolidated statements of income (Note 20).

Computer and system installations, and upgrades and implementation of accounting system recognized as part of capital projects in progress were reclassified to "Intangible assets" in 2014 (Note 14).

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

	Note	**2014**	2013
Cost of power sold		**P6,143,866**	P5,382,435
Operating expenses	*20*	**43,774**	21,749
		P6,187,640	P5,404,184

Total depreciation and amortization recognized in profit or loss include annual amortization of capitalized interest amounting to P4,453 and nil in 2014 and 2013, respectively.

The Group has interest amounting to P254,539 and P84,367 which was capitalized in 2014 and 2013, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.0606% to 6.5446% and 6.3131% in 2014 and 2013, respectively. The unamortized capitalized borrowing costs amounted to P349,498 and P87,462 as of December 31, 2014 and 2013, respectively.

The combined carrying amounts of power plants under finance lease amounted to P188,132,700 and P193,319,103 as of December 31, 2014 and 2013, respectively.

13. Investments and Advances

Investments and advances consist of:

	Note	**2014**	2013
Cost			
Balance at beginning of year		**P301,208**	P12,824,356
Additions		**1,830,054**	301,208
Disposal		**-**	(12,824,356)
Adjustment to subscription receivable		**(57,211)**	-
Balance at end of year		**2,074,051**	301,208
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		**(41,374)**	596,598
Equity in net earnings (losses) during the year		**(32,231)**	795,004
Adjustment to equity in net loss prior year		**9,886**	-
Share in other comprehensive income	*19*	**-**	20,535
Dividends		**-**	(704,407)
Disposal		**-**	(749,104)
Balance at end of year		**(63,719)**	(41,374)
		2,010,332	259,834
Advances		**8,601,945**	5,751,965
		P10,612,277	P6,011,799

The Group's investments pertain to the following:

a. Meralco

In 2012, investment in an associate consists of 69,059,538 quoted common stock of Meralco, representing 6.13% ownership interest. The Parent Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 32.04% interest in Meralco. Accordingly, the Parent Company applied the equity method of accounting on its investment in shares of stock of Meralco.

On September 30, 2013, the Parent Company, together with SMC and San Miguel Pure Foods Company, Inc., entered into a Share Purchase Agreement with J.G. Summit, for the sale of the Parent Company's 69,059,538 shares of stock of Meralco for P16,228,991. The sale is subject to the satisfaction of certain closing conditions, which were satisfied by all the parties on December 11, 2013. As a result of the sale, the Group recognized a gain of P2,587,044, net of expenses, included as part of "Gain on sale of investment" account in the 2013 consolidated statement of income (Note 9).

b. Olongapo Electricity Distribution Company, Inc. (OEDC)

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

As of December 31, 2014 and 2013, carrying amount of investment in OEDC amounted to P191,549 and P259,834, respectively. Subscription payable amounted to P28,101 and P65,625 as of December 31, 2014 and 2013, respectively (Note 16).

The table below summarizes the financial information of investment in an associate which is accounted for using the equity method:

	2014 (Unaudited)	2013 (Audited)
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P424,000**	P247,317
Noncurrent assets	**1,004,174**	891,828
Current liabilities	**(916,386)**	(567,671)
Noncurrent liability	**-**	(1,990)
Net assets	**P511,788**	P569,484
Revenue	**P1,231,297**	P656,942
Net losses / total comprehensive losses	**(P59,883)**	(P92,049)
Share in net losses / total comprehensive losses	**(P20,959)**	(P31,488)

c. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

In accordance with the agreement of the Parent Company through PVEI, a subsidiary of SMC Global, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US$26,448 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39,236 and P15 as full payment of the share purchase price of Angat Hydro and KWPP shares, respectively. The payment was funded in part by the deposit in escrow.

In accordance with the entry of PVEI into Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant.

Angat Hydro

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations, electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with R.A. No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP
KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

As of December 31, 2014, details in investments in Angat Hydro and KWPP are as follows:

	Angat Hydro	KWPP
Acquisition cost	**P1,830,039**	**P15**
Equity in net losses for the period	**(11,257)**	**(15)**
	P1,818,782	**P -**

The table below summarizes the financial information of investments in joint venture which is accounted for using the equity method:

	Angat Hydro	KWPP
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P407,488**	**P69**
Noncurrent assets	**20,187,061**	**17,385**
Current liabilities	**(19,713,866)**	**(354)**
Noncurrent liabilities	**(17,421)**	**(17,661)**
Net assets	**P863,262**	**(P561)**
Revenue	**P153,772**	**P -**
Net losses / total comprehensive losses	**(P72,451)**	**(P470)**
Share in net losses / total comprehensive losses for the period from November 18 to December 31, 2014	**(P11,257)**	**(P15)**

14. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	Note	**2014**	2013
Mining rights	*6*	**P1,719,726**	P1,719,726
Concession assets - net	*7*	**481,702**	-
Computer software under development		**111,947**	-
Goodwill		**8,866**	8,866
		P2,322,241	P1,728,592

The goodwill is attributed to the Group's acquisition of SMEC and SPDC in 2010. Based on management's assessment of the goodwill, it is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount including goodwill as of December 31, 2014 and 2013.

15. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2014**	2013
Restricted cash	*13, 25, 26*	**P1,054,801**	P1,800,438
Deferred input VAT - net of current portion		**980,057**	1,320,591
Noncurrent receivable	*25, 26*	**179,129**	305,281
Advances to suppliers		**1,428**	-
Others	*7*	**-**	80,000
		P2,215,415	P3,506,310

Restricted cash represents: (a) deposits made by PVEI in an escrow account for the acquisition, rehabilitation, operation and maintenance of the Angat Power Plant. In 2014, the amount was withdrawn and paid to the sellers (Note 13); (b) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank as part of the provisions in SPI's Facility Agreement amounting to P1,021,163 in 2014 and P626,279 in 2013 (Note 17); and (c) APEC's collected contributions from consumers, membership fees and bill deposits in 2014 and 2013 amounted to P33,638 and nil, respectively.

The deferred input VAT mainly pertains to the input VAT on the purchase of the Limay power plant from Petron.

Noncurrent receivable represents receivable from a third party for the sale of the Parent Company's 100% ownership interest in PEI, net of current portion.

Others represent the initial amount paid by the Parent Company for the separation pay of employees of ALECO in 2013. This amount became part of the concession asset of APEC when it assumed the Concession Agreement (Note 7).

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2014**	2013
Trade	*7, 18*	**P12,621,078**	P12,750,570
Accrued expenses		**8,851,501**	1,837,417
Output VAT		**4,623,037**	5,364,899
Non-trade		**1,354,760**	2,287,743
Accrued interest	*7, 17*	**487,997**	494,755
Subscription payable	*13*	**28,101**	65,625
Withholding taxes		**151,330**	170,924
	25, 26	**P28,117,804**	P22,971,933

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

Accrued expenses consist of payables related to power rate adjustments and other payables to the Government other than output VAT and withholding taxes.

Non-trade payables mainly pertain to the liability relating to the power rate adjustments in November and December 2013 sale of power to WESM amounting to P1,916,196 and P2,119,181 as of December 31, 2014 and 2013, respectively. The noncurrent portion is presented as other noncurrent liability in the statements of financial position (Note 27).

17. Long-term Debt

Long term debt consists of:

	Note	**2014**	2013
Bonds payable		**P13,416,000**	P13,318,500
Less debt issue costs		**61,955**	71,164
		13,354,045	13,247,336
Loans payable		**35,966,800**	34,497,500
Less debt issue costs		**607,600**	655,951
		35,359,200	33,841,549
	25, 26	**48,713,245**	47,088,885
Less current portion		**1,330,037**	142,403
		P47,383,208	P46,946,482

a. Bonds Payable

On January 28, 2011, the Parent Company carried out a US$300,000, 7%, 5-year note (Bonds Payable) issue under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the bonds contain a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101.0% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011. Bonds payable amounted to P13,416,000 and P13,318,500 while accrued interest amounted to P391,300 and P388,457 as of December 31, 2014 and 2013, respectively. Interest expense amounted to P1,123,679 and P1,094,846 in 2014 and 2013, respectively.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of "Asset Sale", "Material Subsidiary", "Non-Recourse Project Level Indebtedness", "Permitted Security Interest" and "Project Subsidiaries" and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

The US$300,000, 7% bond will mature on January 28, 2016.

b. Loans Payable

Parent Company

i) On March 31, 2011, the Parent Company signed a US$200,000, 3-year term loan with a syndicate of banks. The US$200,000 loan was drawn down by the Parent Company on September 30, 2011. Pursuant to the Facility Agreement, the amount of the loan drawn down will bear interest at the rate of the London interbank offered rate plus a margin, payable in arrears on the last day of the agreed interest period.

   The Parent Company may, by giving not less than ten (10) business days' prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to Break Funding Cost where the prepayment is made on a day other than the last day of an interest period, without minimum penalty.

   On September 30, 2013, the Parent Company pre-terminated the US$200,000, 3-year loan maturing in September 2014.

ii) On September 9, 2013, the Parent Company signed a US$650,000, 5-year term loan with a syndicate of banks. The Facility Agreement has some provisions similar to the US$200,000, 3-year term loan entered into by the Parent Company on March 31, 2011. Subsequently, on November 15, 2013, the US$650,000 Facility Agreement was amended extending the loan facility from US$650,000 to US$700,000.

   Drawn amount from the Facility Agreement amounted to US$500,000 as of December 31, 2014.

   The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries 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 to secure any indebtedness, subject to certain exceptions.

   The US$700,000, 5-year term loan will mature in September 2018.

SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year loan with a syndicate of banks. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount payable to a related party amounting to P3,451,000 and P3,119,565 as of December 31, 2014 and 2013, respectively (Note 18).

Pursuant to the Facility Agreement, the amount of the loan drawn down in 2014 and 2013 will bear interest at the rate of 6.5446% and 6.3131%, respectively, as determined by the Facility Agent. Effective November 28, 2014, step-down interest rate is at 6.2921% and 6.0606% for 2014 and 2013 loans, respectively. The Facility Agreement has a final maturity date of September 2023.

SPI may, by giving not less than thirty (30) days prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to a repayment penalty of 1% of the principal amount being paid to be applied against the outstanding amounts due in the inverse order of maturity. The repayment schedule consists of forty (40) periods on a quarterly basis. First repayment of principal started December 2014.

The annual maturities on this loan are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2015	P1,373,100	P43,063	P1,330,037
2016	1,573,200	39,444	1,533,756
2017	1,573,200	35,107	1,538,093
2018	1,573,200	30,581	1,542,619
2019	1,573,200	25,733	1,547,467
2020 and thereafter	5,940,900	47,207	5,893,693
	P13,606,800	P221,135	P13,385,665

The Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

The loan is secured by the mortgage over the power plant and pledge of shares in SPI owned by the Parent Company (Note 12).

Loans payable amounted to P35,966,800 and P34,497,500 while accrued interest amounted to P17,794 and P22,483 as of December 31, 2014 and 2013, respectively. Total interest expense and financing charges on loans payable amounted to P1,380,328 and P527,527 (inclusive of P266,655 and P87,462 capitalized in construction in progress in 2014 and 2013, respectively; Note 12) in 2014 and 2013, respectively.

The amortization of debt issue costs of P173,978 and P89,912 is included as part of “Interest expense and other financing charges” account in the consolidated statements of income in 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follow:

	2014	2013
Balance at beginning of year	**P727,115**	P131,071
Addition	**128,535**	689,051
Amortization	**(173,978)**	(89,912)
Capitalized amount	**(12,117)**	(3,095)
Balance at end of year	**P669,555**	P727,115

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 25.

18. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of December 31:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC		**2014**	**P -**	**P267,336**	**P10,557**	**P18,009**	On demand; non-interest bearing	Unsecured; no impairment
		2013	-	412,372	252	140,143		
Entities Under Common Control	*7, 12, 20*	**2014**	**7,814,823**	**2,208,319**	**852,839**	**418,116**	On demand; non-interest bearing	Unsecured; no impairment
		2013	1,831,882	17,993,545	522,697	524,268		
Associate	*13*	**2014**	**878,650**	-	**77,816**	-	On demand; non-interest bearing	Unsecured; no impairment
		2013	167,550	-	81,546	-		
Associate of an Entity Under Common Control	*17*	**2014**	-	-	-	**3,451,000**	10 years; interest bearing	Secured
		2013	-	-	-	3,119,565		
		2014	**P8,693,473**	**P2,475,655**	**P941,212**	**P3,887,125**		
		2013	P1,999,432	P18,405,917	P604,495	P3,783,976		

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

b. Amounts owed to related parties consist of trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.

c. The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of "Long-term debt" account in the consolidated statements of financial position.

d. The compensation of key management personnel of the Group amounted to P32,604 and P30,702 for the years ended December 31, 2014 and 2013, respectively.

e. SMC offers shares of stock to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to weighted average daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock up to a maximum of 20,000 shares, subject to certain conditions, through payroll deductions (Note 3).

   The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date. The ESPP also allows subsequent withdrawal and cancellation of participant's subscriptions under certain terms and conditions.

   As of December 31, 2014 and 2013, the expenses related to ESPP amounted to nil and P505, respectively.

f. The Group does not provide yet post-employment benefits to its employees. Management believes that the retirement expense is not significant based on the employees' average age and years of service to the Group, and payroll costs as of December 31, 2014 and 2013.

19. Equity

Capital Stock

As of December 31, 2014 and 2013, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 shares with par value of P1 per share.

Capital stock consists of:

	2014	2013
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable	**187,500**	187,500
Balance at end of year	**P1,062,504**	P1,062,504

The number of shares subscribed is 1,250,003,500 shares as of December 31, 2014 and 2013.

Reserves
Reserves consist of:

	Note	**2014**	2013
Excess of net assets over purchase price of acquired subsidiaries under common control		**P785,279**	P785,279
Share in other comprehensive loss of an associate - net			
Balance at beginning of year		**-**	(39,306)
Additions	*13*	**-**	20,535
Disposal		**-**	18,771
Balance at end of year		**-**	-
		P785,279	P785,279

Excess of net assets over purchase price of acquired subsidiaries under common control pertains to the acquisitions of noncontrolling interest in SMEC and SPDC.

The share in other comprehensive loss of an associate consists of unrealized fair value gain on AFS financial assets and cumulative translation adjustments.

Retained Earnings
The Group's unappropriated retained earnings include the Parent Company's accumulated earnings in subsidiaries and equity in net earnings of associates amounting to P427 and P12,978,115 in 2014 and 2013, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2014

Date of Declaration	**Stockholders of Record**	**Date Payable**	**Dividend per share**	**Amount**
March 25, 2014	**March 25, 2014**	**April 8, 2014**	**P1.20**	**P1,500,000**
June 3, 2014	**June 3, 2014**	**June 10, 2014**	**2.80**	**3,500,000**
August 19, 2014	**August 19, 2014**	**August 29, 2014**	**2.00**	**2,500,000**
November 4, 2014	**November 4, 2014**	**November 11, 2014**	**2.00**	**2,500,000**
				P10,000,000

December 31, 2013

Date of Declaration	Stockholders of Record	Date Payable	Dividend per share	Amount
February 19, 2013	February 19, 2013	February 28, 2013	P0.80	P1,000,000
May 3, 2013	May 3, 2013	May 15, 2013	0.80	1,000,000
August 13, 2013	August 13, 2013	August 15, 2013	0.80	1,000,000
November 29, 2013	November 29, 2013	December 5, 2013	1.20	1,500,000
				P4,500,000

As of December 31, the Group's appropriated retained earnings, net of reversal are as follows:

	2014	2013
Parent Company	**P11,771,000**	P2,643,000
SMEC	**7,675,000**	1,800,000
SPPC	**7,352,300**	2,981,800
SPDC	**2,604,600**	-
	P29,402,900	P7,424,800

Undated Subordinated Capital Securities (USCS)
On May 7, 2014, the Company issued and listed on the Singapore Stock Exchange, US$300,000 USCS at an issue price of 100%.

The holders of the USCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to the step-up rate. The Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Company's option on November 7, 2019, or any distribution payment date thereafter or upon the occurrence of certain other events.

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

20. Operating Expenses

Operating expenses consist of:

	Note	2014	2013
Donations		**P662,752**	P240,060
Management fees	*18*	**456,727**	409,373
Taxes and licenses		**406,979**	110,791
Market fees	*7*	**233,701**	246,591
Impairment losses on receivables	*9*	**144,393**	32,850
Outside services		**143,492**	35,448
Salaries, wages and benefits	*18*	**140,128**	114,070
Professional fees		**130,019**	38,788
Rent	*4, 7*	**115,849**	24,167
Supplies		**46,451**	28,965
Travel and transportation		**45,467**	29,643
Depreciation and amortization	*12*	**43,774**	21,749
Miscellaneous	*12*	**342,198**	215,255
		P2,911,930	P1,547,750

The Group's corporate social responsibility projects, included in the "Miscellaneous" account, amounted to P127,116 and P106,772 for the years ended December 31, 2014 and 2013, respectively.

21. Other Income (Charges)

Other income (charges) consists of:

	Note	**2014**	2013
PSALM monthly fees reduction	*7*	**P814,565**	P872,243
Foreign exchange losses - net	*25*	**(813,621)**	(9,434,860)
Miscellaneous income		**67,281**	71,555
		P68,225	(P8,491,062)

22. Income Taxes

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

	2014	2013
Current	**P1,608,293**	P686,311
Deferred	**1,085,130**	(1,522,613)
	P2,693,423	(P836,302)

Current income tax expense in 2014 and 2013 represents regular corporate income tax of 30% on taxable income, MCIT and final tax on interest income.

Deferred tax assets (liabilities) arise from the following:

	2014	2013
Difference of depreciation and other related expenses over monthly payments	**(P324,095)**	P806,712
Allowance for impairment losses on receivables	**60,005**	14,328
	(P264,090)	P821,040

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

The amounts above are reported in the consolidated statements of financial position as follows:

	2014	2013
Deferred tax assets	**P2,779,380**	P2,909,105
Deferred tax liabilities	**(3,043,470)**	(2,088,065)
	(P264,090)	P821,040

As of December 31, 2014, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2014	December 31, 2017	P2,073,953	P14,230
Year 2013	December 31, 2016	2,187,455	12,766
Year 2012	December 31, 2015	1,577,233	7,417
		P5,838,641	P34,413

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2014	2013
Statutory income tax rate	**30.00%**	30.00%
Increase (decrease) in the income tax rate resulting from:		
Income subject to ITH	**(7.87%)**	(76.30%)
Nondeductible expenses and others	**(1.91%)**	20.22%
Effective income tax rate	**20.22%**	(26.08%)

23. Registrations and License

Registrations with the Board of Investments (BOI)

On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four (4) years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six (6) years beginning December 2015 and February 2016, respectively, or start of commercial operations whichever is earlier, subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for one (1) year from the date of issuance. Advanced authority to import capital equipment was granted on May 21, 2013. For the subsequent year, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and February 6, 2015 to SMCPC and SCPC, respectively, both with a validity of one year from the date of issuance.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration Nos. 2013-047 and 2010-181 from Petron to SPI. Under the Certificates of Registration, SPI is entitled to certain incentives, including ITH incentives, for the revenue generated from the sale of electricity from the plant and sold to the grid, other entities and/or communities.

License Granted by the ERC

On August 22, 2011, SMELC was granted a Retail Electricity Supplier's (RES) License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

24. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2014	2013
Net income (a)	**P10,629,482**	P4,042,655
Weighted average number of shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/diluted EPS (a/b)	**P8.50**	P3.23

As of December 31, 2014 and 2013, the Group has no dilutive debt or equity instruments.

25. Financial Risk Management Objectives and Policies

Objectives and Policies

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

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

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

There has been changes to the Group's exposure to the above risks or the manner in which it manages and measures the risks since prior year. The Group's overall strategy in managing its capital has likewise remained unchanged since prior year.

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

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

The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the BOD on its activities.

The Group's risk management policies 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 the Group's 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 oversees how management monitors compliance with SMC's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The BOD is assisted in its oversight role by SMC's Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's 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.

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 Group's investment policy 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 Group's operations and working capital management. However, the Group invests only in high-quality short-term investments and maintains 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 Group's 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 movements affect reported equity from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

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 P6,388 and P11,893 in 2014 and 2013, 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 equity.

Interest Rate Risk Table

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

December 31, 2014	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P1,223,850**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P5,295,150**	**P12,127,800**
Step-down interest rate	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**-**
Philippine peso-denominated	**149,250**	**171,000**	**171,000**	**171,000**	**171,000**	**645,750**	**1,479,000**
Step-down interest rate	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**-**
Foreign currency-denominated (expressed in Philippine peso)	**-**	**13,416,000**	**-**	**-**	**-**	**-**	**13,416,000**
Interest rate		**7%**					
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**-**	**22,360,000**	**-**	**-**	**22,360,000**
Interest rate				**LIBOR + Margin**			
	P1,373,100	**P14,989,200**	**P1,573,200**	**P23,933,200**	**P1,573,200**	**P5,940,900**	**P49,382,800**

December 31, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P172,200	P1,223,850	P1,402,200	P1,402,200	P1,402,200	P6,697,350	P12,300,000
Interest rate	6.3131%	6.3131%	6.3131%	6.3131%	6.3131%	6.3131%	-
Foreign currency-denominated (expressed in Philippine peso)	-	-	13,318,500	-	-	-	13,318,500
Interest rate	-	-	7%	-	-	-	-
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	22,197,500	-	22,197,500
Interest rate					LIBOR + margin		
	P172,200	P1,223,850	P14,720,700	P1,402,200	P23,599,700	P6,697,350	P47,816,000

Foreign Currency Risk

The Group's 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 Group's risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

	Note	**2014**		2013	
		US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents		**US$260,178**	**P11,635,160**	US$299,660	P13,303,411
Trade and other receivables		**83,937**	**3,753,513**	22,649	1,005,512
Prepaid and other current assets		**-**	**-**	26,448	1,174,159
		344,115	**15,388,673**	348,757	15,483,082
Liabilities					
Accounts payable and accrued expenses		**148,277**	**6,633,727**	30,369	1,348,227
Finance lease liabilities	*7*	**2,216,977**	**99,143,265**	2,350,421	104,346,941
Long-term debt	*7, 17*	**800,000**	**35,776,000**	800,000	35,516,000
		3,165,254	**141,552,992**	3,180,790	141,211,168
Net foreign currency-denominated monetary liabilities		**US$2,821,139**	**P126,164,319**	US$2,832,033	P125,728,086

The Group reported net unrealized foreign exchange losses amounting to P1,584,500 and P9,592,617 in 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2014	**P44.720**
December 31, 2013	44.395

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. Foreign exchange movements affect reported equity from increases or decreases in unrealized and realized foreign exchange gains or losses.

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 monetary liabilities) for the years ended December 31:

	2014		2013	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P260,178)**	**P260,178**	(P299,660)	P299,660
Trade and other receivables	**(83,937)**	**83,937**	(22,649)	22,649
Prepaid expenses and other current assets	**-**	**-**	(26,448)	26,448
	(344,115)	**344,115**	(348,757)	348,757
Accounts payable and accrued expenses	**148,277**	**(148,277)**	30,369	(30,369)
Finance lease liabilities	**2,216,977**	**(2,216,977)**	2,350,421	(2,350,421)
Long-term debt	**800,000**	**(800,000)**	800,000	(800,000)
	3,165,254	**(3,165,254)**	3,180,790	(3,180,790)
	P2,821,139	**(P2,821,139)**	P2,832,033	(P2,832,033)

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 currency risk.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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 standby credit facility from several local banks is also available to ensure availability of funds when necessary.

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 as of December 31:

2014	**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	**P38,304,294**	**P38,304,294**	**P38,304,294**	**P -**	**P -**	**P -**
Trade and other receivables - net	**18,208,339**	**18,208,339**	**18,208,339**	**-**	**-**	**-**
Restricted cash (included under "Other noncurrent assets" account)	**1,054,801**	**1,054,801**	**1,054,801**	**-**	**-**	**-**
Noncurrent receivable (included under "Other noncurrent assets" account)	**179,129**	**179,129**	**-**	**179,129**	**-**	**-**
Financial Liabilities						
Accounts payable and accrued expenses (excluding statutory payables)	**23,331,447**	**23,331,447**	**23,331,447**	**-**	**-**	**-**
Finance lease liabilities (including current portion)	**186,303,745**	**248,175,447**	**22,091,404**	**23,170,046**	**71,935,991**	**130,978,006**
Long-term debt - net (including current portion)	**48,713,245**	**49,382,800**	**1,373,100**	**14,989,200**	**27,079,600**	**5,940,900**

2013	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	P29,125,171	P29,125,171	P29,125,171	P -	P -	P -
Trade and other receivables - net	31,540,444	31,540,444	31,540,444	-	-	-
Restricted cash (included under "Other noncurrent assets" account)	1,800,438	1,800,438	1,800,438	-	-	-
Noncurrent receivable (included under "Other noncurrent assets" account)	305,281	305,281	-	126,152	179,129	-
Financial Liabilities						
Accounts payable and accrued expenses (excluding statutory payables)	16,947,172	16,947,172	16,947,172	-	-	-
Finance lease liabilities (including current portion)	195,002,721	267,421,551	20,116,894	22,013,873	70,035,556	155,255,228
Long-term debt - net (including current portion)	47,088,885	47,816,000	172,200	1,223,850	39,722,600	6,697,350

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's 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 creditworthy customer or counterparty 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. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

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

The Group has established a credit policy under which each new customer or counterparty is analyzed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The Group's 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 Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and, as applicable, 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 as of December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	2014	2013
Cash and cash equivalents	**P38,303,999**	P29,125,021
Trade and other receivables - net	**18,208,339**	31,540,444
Restricted cash	**1,054,801**	1,800,438
Noncurrent receivable	**179,129**	305,281
	P57,746,268	P62,771,184

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has no significant concentration of credit risk since the Group deals with a large number of homogeneous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

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 debt and USCS (Notes 17 and 19).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

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 Group's external environment and the risks underlying the Group's business, operation and industry.

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

26. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P38,304,294**	**P38,304,294**	P29,125,171	P29,125,171
Trade and other receivables - net	**18,208,339**	**18,208,339**	31,540,444	31,540,444
Restricted cash (included under "Other noncurrent assets" account)	**1,054,801**	**1,054,801**	1,800,438	1,800,438
Noncurrent receivable (included under "Other noncurrent assets" account)	**179,129**	**179,129**	305,281	305,281
	P57,746,563	**P57,746,563**	P62,771,334	P62,771,334
Financial Liabilities				
Accounts payable and accrued expenses (excluding statutory payables)	**P23,331,447**	**P23,331,447**	P16,947,172	P16,947,172
Finance lease liabilities (including current portion)	**186,303,745**	**186,303,745**	195,002,721	195,002,721
Long-term debt - net (including current portion)	**48,713,245**	**51,311,719**	47,088,885	50,850,121
	P258,348,437	**P260,946,911**	P259,038,778	P262,800,014

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, Restricted Cash, Noncurrent Receivable, Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amounts of these financial assets and financial liabilities approximate fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of other receivable (noncurrent) is based on the present value of expected future cash flows using applicable discount rates based on current market rates of identical or similar quoted instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. The discount rates used for Philippine peso-denominated loan range from 2.54% to 4.29% and from 0.49% to 3.80% as of December 31, 2014 and 2013, respectively. The discount rates used for foreign currency-denominated loans range from 0.17% to 0.63% and 0.16% to 0.56% as of December 31, 2014 and 2013, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of the long-term debt was categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable at the reporting date. The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2014 and 2013. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Finance 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.

27. Other Matters

a. Contingencies
The Company is a party to certain cases or claims filed by third parties 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 (Note 4).

b. Generation Payments to PSALM
SPPC disputed the claims of PSALM for energy fees. The claims arose from differing interpretations of certain provisions in the IPPA Agreement related to energy fees, the fees payable to PSALM for the generation of power to customers. SPPC's management is in discussions with PSALM to secure a common understanding through amicable means. However, management and its legal counsel assessed that SPPC's bases for the amounts due to PSALM are consistent with the terms of the Ilijan IPPA Agreement. The information usually required is not disclosed on the grounds that it may prejudice the outcome of the discussion.

c. Temporary Restraining Order (TRO) Issued to Meralco
On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. 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, including SMEC and SPPC 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. Further, on December 27, 2013, the Department of Energy (DOE), the ERC and the PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon. As of December 31, 2013, the outcome of this case cannot be determined.

On January 16, 2014, the SC granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while 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 shall be covered by a 24-month Special Payment Arrangement (SPA) agreed with PEMC which took effect in June 2014. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders.

d. Commitments
The outstanding purchase commitments of the Group as of December 31, 2014 amounted to P4,581,000.

Amount authorized but not yet disbursed for capital projects as of December 31, 2014 is approximately P39,379,030.

e. Electric Power Industry Reform Act of 2001
The EPIRA sets forth the following: (a) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (b) Section 31(c) requires the transfer of the management and control of at least seventy percent (70%) of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (c) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements discussed in Note 7.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity.

f. Subsequent Events

On March 25, 2015, the Parent Company and SMEC declared cash dividends amounting to P1,500,000 and P2,000,000, respectively, to stockholders of record on the same date which is payable on March 31, 2015.

On the same date, the BOD confirmed and ratified the Group's acquisition of 100% equity interest in Ondarre Holding Corporation and the incorporation of the following companies:

	Percentage of ownership
Parent Company	
Limay Premiere Power Corp.	100
Central Luzon Premiere Power Corp.	100
Mariveles Power Generation Corporation	100
Mantech Power Dynamics Services Inc.	100
Safetech Power Services Corp.	100
SMEC	
Golden Quest Investment Inc.	100