SMC GLOBAL POWER

14 November 2019

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

Attention: **Atty. Joseph B. Evangelista**
Head – Issuer Compliance and Disclosure Department

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

Gentlemen:

SMC Global Power Holdings Corp. hereby furnishes the Philippine Dealing & Exchange Corp. a copy of its quarterly report for the period ended 30 September 2019, under SEC Form 17-Q, as filed with the Securities and Exchange Commission on even date.

Very truly yours,

SMC GLOBAL POWER HOLDINGS CORP.

By:

ELENITA D. GO
Corporate Information Officer

111142019001787

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

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Company Information

SEC Registration No.	CS200801099
Company Name	SMC GLOBAL POWER HOLDINGS CORP.
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

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COVER SHEET

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S. E. C. Registration Number

SMC GLOBAL POWER
HOLDINGS CORP.

(Company's Full Name)

155 EDSA
Brgy. Wack-Wack
Mandaluyong City

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

Virgilio S. Jacinto
Contact Person

(02) 8632-3143
Company Telephone Number

1	2		3	1

Month *Day*
Fiscal Year

SEC Form 17-Q
(3rd Quarter ended 30 September 2019)
FORM TYPE

0	6		1st Tues.

Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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STAMPS

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

1. For the quarterly period ended **September 30, 2019**

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

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

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

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

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

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

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

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

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

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

	Number of shares of stock and debt outstanding (as of September 30, 2019)
Common Shares	**1,250,004,000**
Consolidated Total Liabilities (in Thousands)	**P400,859,261**

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

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

12. Indicate by check mark whether the registrant:

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

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended September 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018) and Selected Notes to the Consolidated Financial Statements are hereto attached as **Annex "A"**.

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

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

PART II - OTHER INFORMATION

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

SIGNATURES

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

Issuer	**SMC GLOBAL POWER HOLDINGS CORP.**
Signature and Title	**PAUL BERNARD D. CAUSON** Chief Finance Officer/ Authorized Signatory
Date	November 14, 2019
Signature and Title	**RAMON U. AGAY** Comptroller/ Authorized Signatory
Date	November 14, 2019

ANNEX "A"

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND DECEMBER 31, 2018
(In Thousands)

	Note	2019 (Unaudited)	2018 (Audited)
ASSETS			
Current Assets			
Cash and cash equivalents	*12, 13*	**P74,448,156**	P28,511,862
Trade and other receivables - net	*5, 12, 13*	**32,199,930**	33,046,686
Inventories		**4,161,680**	5,294,631
Prepaid expenses and other current assets	*5, 12, 13*	**22,137,786**	21,761,716
Total Current Assets		**132,947,552**	88,614,895
Noncurrent Assets			
Investments and advances - net		**11,030,081**	12,148,986
Property, plant and equipment - net	*1, 6*	**146,828,779**	312,315,406
Right-of-use assets - net	*1*	**164,958,201**	-
Deferred exploration and development costs		**709,125**	705,458
Goodwill and other intangible assets - net		**72,708,135**	72,613,363
Deferred tax assets		**959,890**	1,137,565
Other noncurrent assets	*5, 12, 13*	**15,291,291**	6,314,562
Total Noncurrent Assets		**412,485,502**	405,235,340
		P545,433,054	P493,850,235
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*7, 12, 13*	**P2,332,350**	P8,675,700
Accounts payable and accrued expenses	*5, 12, 13*	**29,211,758**	31,109,917
Lease liabilities - current portion	*1, 9, 12, 13*	**22,415,424**	19,659,645
Income tax payable		**867,671**	310,882
Current maturities of long-term debt - net of debt issue costs	*8, 12, 13*	**5,177,641**	4,939,454
Total Current Liabilities		**60,004,844**	64,695,598
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*8, 12, 13*	**222,850,711**	202,025,806
Deferred tax liabilities		**11,588,890**	8,180,119
Lease liabilities - net of current portion	*1, 9, 12, 13*	**105,473,515**	122,347,416
Other noncurrent liabilities	*12, 13*	**941,301**	843,571
Total Noncurrent Liabilities		**340,854,417**	333,396,912
Total Liabilities		**400,859,261**	398,092,510

Forward

	Note	2019 (Unaudited)	2018 (Audited)
Equity			
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Redeemable perpetual securities	*11*	**32,751,570**	32,751,570
Undated subordinated capital securities	*11*	**26,933,565**	26,933,565
Senior perpetual capital securities	*14*	**41,049,605**	-
Equity reserves		**173,680**	618,307
Retained earnings		**39,116,835**	31,901,779
		143,577,759	95,757,725
Non-controlling Interest	*14*	**996,034**	-
Total Equity		**144,573,793**	95,757,725
		P545,433,054	P493,850,235

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands, Except Per Share Data)

				For the Quarter Ended	
	Note	**2019 (Unaudited)**	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
REVENUES	*3, 5*	**P105,142,025**	P89,111,373	**P32,631,369**	P31,681,219
COST OF POWER SOLD	*3, 5, 6*	**69,624,111**	58,733,892	**19,397,549**	21,446,708
GROSS PROFIT		**35,517,914**	30,377,481	**13,233,820**	10,234,511
SELLING AND ADMINISTRATIVE EXPENSES	*3, 5*	**5,544,127**	4,624,558	**1,644,503**	1,524,693
INCOME FROM OPERATIONS		**29,973,787**	25,752,923	**11,589,317**	8,709,818
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 8, 9*	**(15,437,822)**	(12,621,921)	**(5,133,653)**	(4,474,779)
INTEREST INCOME		**1,154,837**	504,938	**486,138**	181,153
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES		**(296,070)**	(253,859)	**(274,067)**	(18,291)
OTHER INCOME (CHARGES) - Net	*4*	**1,632,782**	(7,386,191)	**(587,390)**	(1,339,418)
INCOME BEFORE INCOME TAX		**17,027,514**	5,995,890	**6,080,345**	3,058,483
INCOME TAX EXPENSE		**5,642,732**	1,629,920	**1,958,241**	564,067
NET INCOME		**P11,384,782**	P4,365,970	**P4,122,104**	P2,494,416
Attributable to:					
Equity holders of the Parent Company		**P11,394,618**	P4,347,627	**P4,121,601**	P2,491,599
Non-controlling interest		**(9,836)**	18,343	**503**	2,817
		P11,384,782	P4,365,970	**P4,122,104**	P2,494,416
Earnings Per Common Share Attributable to Equity Holders of the Parent Company					
Basic/Diluted	*10*	**P4.85**	P0.60	**P1.47**	P0.91

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands)

				For the Quarter Ended	
	Note	**2019 (Unaudited)**	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
NET INCOME		**P11,384,782**	P4,365,970	**P4,122,104**	P2,494,416
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified to profit or loss					
Net loss on cash flow hedges - net	13	**(7,700)**	(81,572)	**(33,793)**	(81,572)
Gain (loss) on exchange differences on translation of foreign operations		**(346,055)**	839,052	**319,250**	292,251
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(353,755)**	757,480	**285,457**	210,679
TOTAL COMPREHENSIVE INCOME - Net of tax		**P11,031,027**	P5,123,450	**P4,407,561**	P2,705,095
Attributable to:					
Equity holders of the Parent Company		**P11,040,863**	P5,105,107	**P4,407,058**	P2,702,278
Non-controlling interest	14	**(9,836)**	18,343	**503**	2,817
		P11,031,027	P5,123,450	**P4,407,561**	P2,705,095

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands)

		Equity Attributable to Equity Holders of the Parent Company												
							Equity Reserves							
	Note	Capital Stock	Additional Paid-in Capital	Redeemable Perpetual Securities	Undated Subordinated Capital Securities	Senior Perpetual Capital Securities	Equity Reserves	Translation Reserves	Reserve for Retirement Plan	Hedging Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
As of January 1, 2019, As previously reported (Audited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P26,933,565**	**P -**	**P466,843**	**P145,256**	**P8,052**	**(P1,844)**	**P31,901,779**	**P95,757,725**	**P -**	**P95,757,725**
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16, Leases	1	-	-	-	-	-	-	-	-	-	(17,432)	(17,432)	-	(17,432)
As of January 1, 2019, As adjusted		**1,062,504**	**2,490,000**	**32,751,570**	**26,933,565**	**-**	**466,843**	**145,256**	**8,052**	**(1,844)**	**31,884,347**	**95,740,293**	**-**	**95,740,293**
Net income		-	-	-	-	-	-	-	-	-	11,394,618	11,394,618	(9,836)	11,384,782
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	(346,055)	-	(7,700)	-	(353,755)	-	(353,755)
Total comprehensive income (loss)		-	-	-	-	-	-	(346,055)	-	(7,700)	11,394,618	11,040,863	(9,836)	11,031,027
Revaluation Increment		-	-	-	-	-	(90,872)	-	-	-	-	(90,872)	-	(90,872)
Issuance of senior perpetual capital securities	14	-	-	-	-	41,049,605	-	-	-	-	-	41,049,605	-	41,049,605
Increase in non-controlling interest	14	-	-	-	-	-	-	-	-	-	-	-	1,005,870	1,005,870
Share issuance costs		-	-	-	-	-	-	-	-	-	(225,374)	(225,374)	-	(225,374)
Distributions:														
Undated subordinated capital securities	11	-	-	-	-	-	-	-	-	-	(2,352,889)	(2,352,889)	-	(2,352,889)
Redeemable perpetual securities	11	-	-	-	-	-	-	-	-	-	(1,583,867)	(1,583,867)	-	(1,583,867)
Transactions with owners		-	-	-	-	41,049,605	(90,872)	-	-	-	(4,162,130)	36,796,603	1,005,870	37,802,473
As of September 30, 2019 (Unaudited)		**P1,062,504**	**P2,490,000**	**P32,751,570**	**P26,933,565**	**P41,049,605**	**P375,971**	**(P200,799)**	**P8,052**	**(P9,544)**	**P39,116,835**	**P143,577,759**	**P996,034**	**P144,573,793**
As of January 1, 2018, As previously reported (Audited)		P1,062,504	P2,490,000	P -	P26,933,565	P -	P785,279	P -	(P23,632)	P -	P28,517,796	P59,765,512	P -	P59,765,512
Adjustments due to PFRS 15		-	-	-	-	-	-	-	-	-	(59,958)	(59,958)	-	(59,958)
As of January 1, 2018, As adjusted		1,062,504	2,490,000	-	26,933,565	-	785,279	-	(23,632)	-	28,457,838	59,705,554	-	59,705,554
Net income		-	-	-	-	-	-	-	-	-	4,347,627	4,347,627	18,343	4,365,970
Other comprehensive income (loss) - net of tax		-	-	-	-	-	-	839,052	-	(81,572)	-	757,480	-	757,480
Total comprehensive income (loss)		-	-	-	-	-	-	839,052	-	(81,572)	4,347,627	5,105,107	18,343	5,123,450
Issuance of redeemable perpetual securities		-	-	32,751,570	-	-	-	-	-	-	-	32,751,570	-	32,751,570
Non-controlling interest from acquisition of subsidiari(		-	-	-	-	-	-	-	-	-	-	-	198,077	198,077
Cash dividends		-	-	-	-	-	-	-	-	-	-	-	(4,049)	(4,049)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	(212,371)	(212,371)
Revaluation increment		-	-	-	-	-	(319,222)	-	-	-	-	(319,222)	-	(319,222)
Distributions:														
Undated subordinated capital securities	11	-	-	-	-	-	-	-	-	-	(2,344,540)	(2,344,540)	-	(2,344,540)
Redeemable perpetual securities	11	-	-	-	-	-	-	-	-	-	(1,079,914)	(1,079,914)	-	(1,079,914)
Transactions with owners		-	-	32,751,570	-	-	(319,222)	-	-	-	(3,424,454)	29,007,894	(18,343)	28,989,551
As of September 30, 2018 (Unaudited)		P1,062,504	P2,490,000	P32,751,570	P26,933,565	P -	P466,057	P839,052	(P23,632)	(P81,572)	P29,381,011	P93,818,555	P -	P93,818,555

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2019 AND 2018
(In Thousands)

	Note	**2019 (Unaudited)**	2018 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P17,027,514**	P5,995,890
Adjustments for:			
Interest expense and other financing charges	*7, 8, 9*	**15,437,822**	12,621,921
Depreciation and amortization	*6*	**7,392,692**	6,799,188
Equity in net losses of associates and joint ventures - net		**296,070**	253,859
Unrealized marked-to-market loss (gain) on derivatives	*13*	**166,371**	(73,377)
Impairment losses on trade and other receivables		**120,695**	30,713
Retirement benefit expense		**29,538**	37,368
Loss on retirement of machineries and equipment	*4, 6*	**66**	34,869
Gain on sale of transportation equipment		**(1,402)**	-
Interest income		**(1,154,837)**	(504,938)
Unrealized foreign exchange losses (gains) - net	*12*	**(2,137,881)**	6,955,712
Operating income before working capital changes		**37,176,648**	32,151,205
Decrease (increase) in:			
Trade and other receivables - net		**1,175,330**	(4,483,872)
Inventories		**1,098,213**	(169,215)
Prepaid expenses and other current assets		**(703,540)**	(3,673,954)
Increase (decrease) in:			
Accounts payable and accrued expenses		**1,550,429**	(2,261,501)
Other noncurrent liabilities and others		**(654,563)**	104,472
Cash generated from operations		**39,642,517**	21,667,135
Interest income received		**1,074,925**	533,060
Income taxes paid		**(1,229,278)**	(1,665,224)
Interest expense and other financing charges paid		**(15,738,048)**	(8,357,578)
Net cash flows provided by operating activities		**23,750,116**	12,177,393
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of transportation equipment		**1,817**	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**-**	(97,333,757)
Acquisition of non-controlling interest		**-**	(532,426)
Additions to deferred exploration and development costs		**(3,667)**	(3,236)
Additions to intangible assets		**(96,918)**	(92,244)
Additions to investments and advances		**(131,095)**	(457,554)
Additions to property, plant and equipment	6	**(5,146,404)**	(4,509,884)
Decrease (increase) in other noncurrent assets		**(10,960,892)**	2,178,709
Net cash flows used in investing activities		**(16,337,159)**	(100,750,392)

Forward

	Note	2019 (Unaudited)	2018 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debts	*8*	**P32,802,200**	P102,879,200
Proceeds from issuance of senior perpetual capital securities		**41,049,605**	-
Proceeds from short-term borrowings	*7*	**4,622,400**	35,580,000
Proceeds from issuance of redeemable perpetual securities		**-**	32,751,570
Cash dividends paid to previous holder of non-controlling interest		**-**	(4,049)
Payment of stock issuance costs		**(225,374)**	-
Distributions paid to redeemable perpetual securities holder	*11*	**(1,583,867)**	(1,079,914)
Distributions paid to undated subordinated capital securities holders	*11*	**(2,352,889)**	(2,344,540)
Payments of long-term debts	*8*	**(10,702,730)**	(13,779,609)
Payments of short-term borrowings	*7*	**(10,879,200)**	(41,510,000)
Payments of lease liabilities	*9*	**(14,401,422)**	(19,220,644)
Net cash flows provided by financing activities		**38,328,723**	93,272,014
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**194,614**	761,156
NET INCREASE IN CASH AND CASH EQUIVALENTS		**45,936,294**	5,460,171
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**28,511,862**	28,655,359
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P74,448,156**	P34,115,530

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

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer / Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE ON AGING OF TRADE AND OTHER RECEIVABLES
SEPTEMBER 30, 2019
(Amounts in Thousands)

			Past Due			
	Total	**Current**	**1 - 30 Days**	**31 - 60 Days**	**61 - 90 Days**	**Over 90 Days**
Trade	₱ 23,963,244	₱ 13,277,350	₱ 1,727,382	₱ 452,420	₱ 567,977	₱ 7,938,115
Non-trade	9,513,982	1,782,676	62,342	287,460	69,763	7,311,741
Related Parties	1,506,526	774,745	196,981	4,764	29,755	500,281
Total	34,983,752	₱ 15,834,771	₱ 1,986,705	₱ 744,644	₱ 667,495	₱ 15,750,137
Less allowance for impairment losses	2,783,822					
Net	₱ **32,199,930**					

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer/ Authorized Signatory

SMC GLOBAL POWER HOLDINGS CORP.
Proceeds from Issuance of P30B Fixed Rate Bonds consisting of Series "H", "I" and "J" Bonds
September 30, 2019
(Amounts in Thousands)

i) Gross and Net Proceeds as Disclosed in the Final Prospectus

Gross Proceeds			₱	30,000,000
Estimated Fees, Commissions, and Expenses relating to the Issue:				
Gross Underwriting Fees	₱	135,000		
Documentary Stamp Tax		225,000		
SEC Registration Fee		8,062		
SEC Legal Research Fee		81		
PDEX Listing Application Fee		300		
Listing and Maintenance Fee		450		
Legal and Other Professional Fees		5,500		
Rating Fee		6,750		
Printing Cost		200		
Trustee Fees		300		
Paying Agency and Registry Fees		200		
Other Expenses		950		382,793
Net Proceeds			₱	29,617,207

ii) Actual Gross and Net Proceeds

Gross Proceeds			₱	30,000,000
Gross Underwriting Fees	₱	143,107		
Documentary Stamp Tax		225,000		
SEC Registration and Legal Research Fee		8,143		
PDEx Listing, Application and Maintenance Fee		1,437		
Rating Fee		6,027		
Printing Cost		128		
Other expenses		596		384,438
			₱	29,615,562

iii) Each Expenditure Item where the Proceeds were Used

Refinancing and/or re-denomination of outstanding US$ denominated loan obligations:		
- US$150 million, 5-year term loan	₱	8,541,331
- US$120 million, short-term loan		6,278,441
Investments in power-related assets		14,795,790
	₱	29,615,562

iv) Balance of the Proceeds as of the End of Reporting Period ₱ -

Certified Correct:

PAUL BERNARD D. CAUSON
Chief Finance Officer/ Authorized Signatory

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

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

1. Summary of Significant Accounting and Financial Reporting Policies

SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") prepared its interim consolidated financial statements as of and for the period ended September 30, 2019 and comparative financial statements for the same period in 2018 following the new presentation rules under Philippine Accounting Standards (PAS) No. 34, *Interim Financial Reporting.* The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New and Amended Standards and Interpretation

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

New and Amended Standards and Interpretation Adopted in 2019

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

- PFRS 16, *Leases,* supersedes PAS 17, *Leases,* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

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

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 6.95% to 7.54% as of January 1, 2019.

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

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

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

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

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

	Increase (Decrease)
ASSETS	
Property, plant and equipment - net	(P167,606,425)
Right-of-use assets – net	168,889,306
Deferred tax assets	6,499
	P1,289,380
LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	(P132,255)
Lease liabilities	1,447,918
Deferred tax liabilities	(8,851)
Total Liabilities	1,306,812
Retained earnings	(17,432)
Total Equity	(17,432)
	P1,289,380

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

Operating lease commitments as of December 31, 2018	P2,998,943
Extension option reasonably certain to be exercised	481,086
Recognition exemption for short-term leases	(990)
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(2,031,121)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	1,447,918
Finance lease liabilities recognized as of December 31, 2018	142,007,061
Lease liabilities recognized as of January 1, 2019	P143,454,979

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures).* The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or financial assets at fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

- Plan Amendment, Curtailment or Settlement *(Amendments to PAS 19, Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:

  - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements)*. The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

  - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

  - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs)*. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

New and Amended Standards and Interpretation Not Yet Adopted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leases
Policy Applicable from January 1, 2019

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

(a) the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

(b) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(c) the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

  i. the Group has the right to operate the asset; or

  ii. the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy Applicable before January 1, 2019

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

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

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

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

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

2. Use of Judgments, Estimates and Assumptions

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

The significant judgments made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2018.

3. Segment Information

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

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and 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 September 30, 2019 and December 31, 2018, the information about this component of the Group would not be useful to the users of the interim consolidated financial statements.

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

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

Major Customers
The Group sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale of power to Manila Electric Company (Meralco) amounting to P50,246,138 and P41,648,510 for the periods ended September 30, 2019 and 2018, respectively, represents more than 10% of the Group's total revenues.

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

<u>Operating Segments</u>

Financial information about reportable segments follows:

	For the Periods Ended September 30											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Revenues												
External	P87,665,545	P75,303,451	P17,476,480	P13,807,922	P -	P -	P -	P -	P -	P -	P105,142,025	P89,111,373
Inter-segment	17,076,747	14,038,272	192,126	139,831	-	-	521,914	482,546	(17,790,786)	(14,660,649)	-	-
	104,742,292	89,341,723	17,668,606	13,947,753	-	-	521,914	482,546	(17,790,786)	(14,660,649)	105,142,025	89,111,373
Cost and Expenses												
Cost of power sold	72,044,337	60,579,615	16,446,628	12,803,043	-	-	2,049	52,673	(18,868,903)	(14,701,439)	69,624,111	58,733,892
Selling and administrative expenses	5,038,203	4,019,045	381,685	187,475	6,059	11,274	1,545,199	1,748,855	(1,427,019)	(1,342,091)	5,544,127	4,624,558
	77,082,540	64,598,660	16,828,313	12,990,518	6,059	11,274	1,547,248	1,801,528	(20,295,922)	(16,043,530)	75,168,238	63,358,450
Segment Result	P27,659,752	P24,743,063	P840,292	P957,235	(P6,059)	(P11,274)	(P1,025,334)	(P1,318,982)	P2,505,136	P1,382,881	P29,973,787	P25,752,923

4. Other Income (Charges)

Other income (charges) consist of:

	Note	September 30 2019 (Unaudited)	2018 (Unaudited)
Foreign exchange gain (losses) - net	*12*	**P1,483,530**	(P8,487,071)
PSALM* monthly fees reduction	*9*	**104,681**	778,945
Construction revenue		**96,769**	92,244
Loss on retirement of machineries and equipment	*6*	**(66)**	(34,869)
Construction cost		**(96,769)**	(92,244)
Miscellaneous income - net	*5*	**44,637**	356,804
		P1,632,782	(P7,386,191)

**Power Sector Assets and Liabilities Management Corporation*

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

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

Miscellaneous income mostly pertains to management fee and rental income.

5. 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 September 30, 2019 (Unaudited) and December 31, 2018 (Audited):

	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	**2019**	**P352,935**	**P527,686**	**P83,849**	**P68,420**	On demand or 30 days;	Unsecured;
	2018	483,003	925,639	87,768	29,339	non-interest bearing	no impairment
	2019	**-**	**-**	**3,173**	**-**	1 year; non-	Unsecured;
	2018	-	-	96,203	-	interest bearing	no impairment
Entities under Common Control	**2019**	**2,266,439**	**1,602,481**	**688,709**	**1,336,824**	On demand or 30 days;	Unsecured;
	2018	2,697,651	1,077,826	5,150,603	526,290	non-interest bearing	no impairment
	2019	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured;
	2018	-	-	-	492	non-interest bearing	
Associates	**2019**	**794,701**	**9,416**	**104,856**	**29,756**	On demand or 30 days;	Unsecured;
	2018	996,108	16,647	117,229	29,936	non-interest bearing	no impairment
	2019	**10,302**	**-**	**222,826**	**-**	9 years;	Unsecured;
	2018	13,342	-	250,581	-	interest bearing	no impairment
Joint Venture	**2019**	**22,811**	**312,233**	**12,186**	**-**	30 days;	Unsecured;
	2018	30,395	86,700	7,653	-	non-interest bearing	no impairment
	2019	**-**	**-**	**128,965**	**-**	92 days;	Unsecured;
	2018	15,138	-	131,928	-	interest bearing	no impairment
Associates of Entities under Common Control	**2019**	**691,667**	**-**	**217,118**	**1,150**	30 days;	Unsecured;
	2018	893,024	-	162,488	-	non-interest bearing	no impairment
Others	**2019**	**1,783,978**	**-**	**233,995**	**1,041**	On demand or 30 days;	Unsecured;
	2018	1,832,837	-	424,730	1,041	non-interest bearing	no impairment
	2019	**P5,922,833**	**P2,451,816**	**P1,695,677**	**P1,437,683**		
	2018	P6,961,498	P2,106,812	P6,429,183	P587,098		

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

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

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

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

6. Property, Plant and Equipment

Property, plant and equipment consist of:

September 30, 2019 and December 31, 2018

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2018 (Audited)	P250,544,937	P3,953,878	P681,983	P41,657	P38,515,764	P293,738,219
Acquisition of subsidiaries	35,253,504	878,145	1,759,579	899,543	23,483,409	62,274,180
Additions	46,237	41,018	116,445	21,708	5,824,345	6,049,753
Reclassifications/Retirements	28,549,042	1,272,794	103,559	514,958	(28,694,240)	1,746,113
Currency translation adjustments	408,114	9,539	21,294	9,253	183,315	631,515
December 31, 2018 (Audited), as previously reported	314,801,834	6,155,374	2,682,860	1,487,119	39,312,593	364,439,780
Adjustment due to adoption of PFRS 16 (Note 1)	(214,346,545)	(202,908)	-	1,285	3,804	(214,544,364)
December 31, 2018, as adjusted	100,455,289	5,952,466	2,682,860	1,488,404	39,316,397	149,895,416
Additions	63,698	30,770	77,365	29,477	4,945,094	5,146,404
Reclassifications/Disposals	6,464,448	2,613,376	74,784	240,826	(8,194,763)	1,198,671
Currency translation adjustments	(689,300)	(10,153)	(37,269)	(14,093)	(378,097)	(1,128,912)
September 30, 2019 (Unaudited)	**106,294,135**	**8,586,459**	**2,797,740**	**1,744,614**	**35,688,631**	**155,111,579**
Accumulated Depreciation and Amortization						
January 1, 2018 (Audited)	42,378,811	86,325	302,123	9,653	-	42,776,912
Depreciation and amortization	8,769,755	98,339	288,548	37,761	-	9,194,403
Reclassifications/Retirements	(7,591)	(33,357)	(9,022)	6	-	(49,964)
Currency translation adjustments	125,967	1,031	5,440	320	-	132,758
December 31, 2018 (Audited), as previously reported	51,266,942	152,338	587,089	47,740	-	52,054,109
Adjustment due to adoption of PFRS 16 (Note 1)	(46,938,033)	(24)	-	118	-	(46,937,939)
December 31, 2018, as adjusted	4,328,909	152,314	587,089	47,858	-	5,116,170
Depreciation and amortization	3,158,333	81,387	105,218	51,591	-	3,396,529
Disposals	189,263	-	(192,148)	-	-	(2,885)
Currency translation adjustments	(284,333)	(4)	(10,451)	(1,492)	-	(296,280)
September 30, 2019 (Unaudited)	**7,392,172**	**233,697**	**489,708**	**97,957**	-	**8,213,534**
Accumulated Impairment Losses						
January 1, 2018 (Audited)	-	-	-	-	-	-
Impairment	-	-	70,265	-	-	70,265
December 31, 2018 (Audited)	-	-	70,265	-	-	70,265
Currency translation adjustments	-	-	(999)	-	-	(999)
September 30, 2019 (Unaudited)	-	-	**69,266**	-	-	**69,266**
Carrying Amount						
December 31, 2018 (Audited)	P263,534,892	P6,003,036	P2,025,506	P1,439,379	P39,312,593	P312,315,406
September 30, 2019 (Unaudited)	**P98,901,963**	**P8,352,762**	**P2,238,766**	**P1,646,657**	**P35,688,631**	**P146,828,779**

September 30, 2018

	Power Plants	Land and Leasehold Improvements	Other Equipment	Building	Capital Projects in Progress	Total
Cost						
January 1, 2018 (Audited)	P250,544,937	P3,953,878	P681,983	P41,657	P38,515,764	P293,738,219
Acquisition of subsidiaries	35,378,509	878,145	1,634,574	899,543	23,483,409	62,274,180
Additions	99,813	6,665	88,515	4,688	4,310,203	4,509,884
Reclassifications/Retirements	28,161,175	1,024,461	101,827	375,958	(28,343,745)	1,319,676
Currency translation adjustments	1,741,639	33,684	86,601	36,311	875,754	2,773,989
September 30, 2018 (Unaudited)	315,926,073	5,896,833	2,593,500	1,358,157	38,841,385	364,615,948
Accumulated Depreciation and Amortization						
January 1, 2018 (Audited)	42,378,811	86,325	302,123	9,653	-	42,776,912
Depreciation and amortization	6,535,188	66,250	75,947	25,322	-	6,702,707
Reclassifications/Retirements	(7,892)	(33,358)	(8,789)	6	-	(50,033)
Currency translation adjustments	649,382	1,055	25,899	2,833	-	679,169
September 30, 2018 (Unaudited)	49,555,489	120,272	395,180	37,814	-	50,108,755
Carrying Amount						
September 30, 2018 (Unaudited)	P266,370,584	P5,776,561	P2,198,320	P1,320,343	P38,841,385	P314,507,193

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

	September 30	
	2019 (Unaudited)	2018 (Unaudited)
Cost of power sold	**P2,851,286**	P6,584,285
Selling and administrative expenses	**545,243**	118,422
	P3,396,529	P6,702,707

7. Loans Payable

	Note	**September 30 2019 (Unaudited)**	December 31 2018 (Audited)
Masinloc Power Partners Co. Ltd. (MPPCL)		**P2,332,350**	P2,366,100
Parent Company		-	6,309,600
	12, 13	**P2,332,350**	P8,675,700

Loans payable mainly represent unsecured short-term US dollar-denominated amounts obtained from local banks. Interest rates for these loans ranged from 3.64% to 4.30% and 3.75% for the periods ended September 30, 2019 and 2018, respectively.

Interest expense on loans payable amounted to P157,321 and P187,117 (inclusive of P15,957 capitalized in CPIP in 2018) for the periods ended September 30, 2019 and 2018, respectively.

On April 29, 2019, the Parent Company fully paid its US$120,000 short-term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance (Note 8).

8. Long-term Debt

Long-term debt consists of:

	Note	September 30 2019 (Unaudited)	December 31 2018 (Audited)
Bonds			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (a)		**P29,647,776**	P -
Fixed interest rate of 6.7500% maturing in 2023 (b)		**14,845,448**	14,823,529
Fixed interest rate of 5.3750%, 6.2500% and 6.6250% maturing in 2022, 2024 and 2027, respectively (c)		**19,836,462**	19,812,609
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)		**14,907,702**	14,889,229
		79,237,388	49,525,367
Term Loans			
Parent Company			
Peso-denominated			
Fixed interest rate of 6.9265%, with maturities up to 2024 (e)		**14,666,293**	14,726,126
Foreign currency-denominated			
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2021 and 2023 (f) (g)		**35,709,541**	43,799,781
Subsidiaries			
Peso-denominated			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (h)		**41,517,652**	42,247,279
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (i)		**19,983,083**	20,060,138
Foreign currency-denominated			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (j) (k)		**27,738,654**	27,504,342
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (l) (m)		**9,175,741**	9,102,227
		148,790,964	157,439,893
	12, 13	**228,028,352**	206,965,260
Less: current maturities		**5,177,641**	4,939,454
		P222,850,711	P202,025,806

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

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

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

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

b. The amount represents the second tranche of the Parent Company's P35,000,000 fixed rate bonds shelf registration (the "Series G" Bonds). The Series G Bonds, with an aggregate principal amount of P15,000,000, were issued and listed in the PDEx for trading on August 17, 2018 at the issue price of 100% of face value with a 5-year term, due 2023, and interest rate of 6.75%.

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

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

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

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

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

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

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

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

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

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

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

On April 26 and October 26, 2018 and April 26 and October 26, 2019, the Parent Company has made principal repayments totalling to P300,000, pursuant to the loan agreement.

f. The amount represents the availment by the Parent Company of a US$500,000, 5-year credit facility agreement with a foreign financial institution on March 15, 2018. The proceeds were used by the Parent Company to partially finance the acquisition of the Masinloc Group (comprising of SMCGP Masin Pte. Ltd. and subsidiaries, SMCGP Transpower Pte. Ltd. and SMCGP Philippines Inc.) in March 2018.

On April 25, 2019, the Parent Company has fully paid the remaining balance of US$150,000 out of the US$500,000 term loan using a portion of the proceeds from its P30,000,000 fixed-rate bonds issuance.

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

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

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

ii. the funding of the acquisition of the Phase II Limay Greenfield Power Plant, under construction, from Limay Premiere Power Corporation; and

iii. the repayment of advances from the Parent Company.

As of September 30, 2019, SCPC has partially paid a total of P1,837,500 to the first tranche of the P44,000,000 loan, pursuant to the terms and conditions of the OLSA.

i. The amount represents the remaining balance of the P20,322,000 and P978,000 drawn by San Miguel Consolidated Power Corporation (SMCPC) in 4 tranches on August 17, 2018 and July 31, 2019, respectively, from its P21,300,000, 12-year OLSA with a syndicate of local banks, signed on August 9, 2018. The loan is payable in 48 quarterly installments up to August 2030. The proceeds were used mainly by SMCPC for the following purposes:

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

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

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

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

   As of September 30, 2019, SMCPC has partially paid a total of P971,919 out of the P21,300,000 loan, pursuant to the terms and conditions of its OLSA.

j. The amount represents the US$279,300 total outstanding loan drawn in tranches by MPPCL from its Omnibus Refinancing Agreement (ORA), dated December 28, 2012, with local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL on August 22, 2007. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on January 23, 2023.

   From April 30, 2018 to October 25, 2019, MPPCL made principal repayments totaling to US$78,300, pursuant to the terms and conditions of the ORA.

k. The amount represents the US$442,000 total outstanding loan drawn in tranches by MPPCL from its Omnibus Expansion Financing Agreement (OEFA) dated December 1, 2015, with local banks, to finance the construction of the additional 300 MW coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on December 15, 2030.

   On October 28, 2019, MPPCL made principal repayment amounting to US$442, pursuant to the terms and conditions of the OEFA.

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

The fair value of the Bonds, amounting to P85,814,720 and P47,499,734 as of September 30, 2019 and December 31, 2018, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques.

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

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

As of September 30, 2019 and December 31, 2018, the Group is in compliance with the covenants, including the required financial ratios, of the debt agreements.

The movements in debt issue costs are as follows:

	September 30 2019 (Unaudited)	December 31 2018 (Audited)
Balance at beginning of period	**P2,992,252**	P1,271,299
Additions	**548,657**	1,560,440
Acquisition of subsidiaries	**-**	572,065
Capitalized amount	**(10,403)**	(21,037)
Currency translation adjustments and others	**(14,422)**	34,658
Amortization	**(612,856)**	(425,173)
Balance at end of period	**P2,903,228**	P2,992,252

Repayment Schedule
The annual maturities of the long-term debt as of September 30, 2019 are as follows:

Year	Gross Amount US Dollar	Peso Equivalent of US Dollar	Peso	Debt Issue Costs	Net
October 1, 2019 to September 30, 2020	US$51,289	P2,658,319	P2,725,892	P206,570	P5,177,641
October 1, 2020 to September 30, 2021	265,650	13,768,640	9,784,142	333,952	23,218,830
October 1, 2021 to September 30, 2022	69,061	3,579,421	17,758,891	347,541	20,990,771
October 1, 2022 to September 30, 2023	673,523	34,908,697	33,147,644	902,479	67,153,862
October 1, 2023 to September 30, 2024	26,255	1,360,786	27,757,284	276,617	28,841,453
October 1, 2024 to thereafter	335,522	17,390,136	66,091,728	836,069	82,645,795
	US$1,421,300	P73,665,999	P157,265,581	P2,903,228	P228,028,352

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 12.

9. Significant 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 capacity of the following power plants, the Group was declared the winning bidder to act as IPP Administrator through the following appointed subsidiaries:

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

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

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P20,431,267 and P18,544,319 for the periods ended September 30, 2019 and 2018, respectively. SMEC and SPDC renewed their performance bonds amounting to US$58,187 and US$20,305 which will expire on November 3, 2019 and January 25, 2020, respectively. Subsequently, the performance bond of SMEC was renewed up to November 3, 2020.

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 14).

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the interim consolidated statements of income. Interest expense amounted to P5,567,446 and P6,308,818, for the periods ended September 30, 2019 and 2018, respectively.

The IPPA's power plant under lease arrangements, presented under "Right-of-use assets - net" account in the interim consolidated statements of financial position, amounted to P163,497,287 as of September 30, 2019.

The future minimum lease payments for each of the following periods are as follows:

September 30, 2019	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$288,371**	**P14,946,243**	**P13,810,697**	**P28,756,940**
More than 1 year and not later than 5 years	**990,426**	**51,333,799**	**47,458,318**	**98,792,117**
Later than 5 years	**202,293**	**10,484,848**	**9,707,025**	**20,191,873**
	1,481,090	**76,764,890**	**70,976,040**	**147,740,930**
Less: Future finance charges on finance lease liabilities	**145,628**	**7,547,900**	**13,842,728**	**21,390,628**
Present values of finance lease liabilities	**US$1,335,462**	**P69,216,990**	**P57,133,312**	**P126,350,302**

December 31, 2018	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$268,064	P14,094,815	P12,835,994	P26,930,809
More than 1 year and not later than 5 years	1,053,631	55,399,904	50,478,061	105,877,965
Later than 5 years	360,158	18,937,118	17,275,304	36,212,422
	1,681,853	88,431,837	80,589,359	169,021,196
Less: Future finance charges on finance lease liabilities	184,939	9,724,085	17,381,029	27,105,114
Present values of finance lease liabilities	US$1,496,914	P78,707,752	P63,208,330	P141,916,082

The present values of minimum lease payments for each of the following periods are as follows:

September 30, 2019	**US Dollar**	**Peso Equivalent of US Dollar**	**Peso**	**Total**
Not later than 1 year	**US$243,368**	**P12,613,770**	**P9,691,203**	**P22,304,973**
More than 1 year and not later than 5 years	**901,475**	**46,723,427**	**38,977,641**	**85,701,068**
Later than 5 years	**190,619**	**9,879,793**	**8,464,468**	**18,344,261**
	US$1,335,462	**P69,216,990**	**P57,133,312**	**P126,350,302**

December 31, 2018	US Dollar	Peso Equivalent of US Dollar	Peso	Total
Not later than 1 year	US$216,662	P11,392,106	P8,198,471	P19,590,577
More than 1 year and not later than 5 years	938,838	49,364,101	39,688,606	89,052,707
Later than 5 years	341,414	17,951,545	15,321,253	33,272,798
	US$1,496,914	P78,707,752	P63,208,330	P141,916,082

b. Land Lease Agreement with PSALM

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

The finance lease liability is amortized using a 4.52% discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the interim consolidated statements of income which amounted to P2,539 and P417 for the periods ended September 30, 2019 and 2018, respectively.

MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position, amounted to P199,417 as of September 30, 2019.

Future minimum lease payments under lease arrangement with the present value of future minimum lease payments follow:

	September 30, 2019		December 31, 2018	
	Minimum Lease Payments	**Present Value of Minimum Lease Payments**	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than 1 year	**P68,118**	**P68,084**	P69,145	P69,068
More than 1 year and not later than 5 years	**18,625**	**18,153**	15,282	12,077
Later than 5 years	**2,630**	**1,929**	16,385	9,834
	89,373	**88,166**	100,812	90,979
Less: Future finance charges on finance lease liabilities	**1,207**	-	9,833	-
Present values of finance lease liabilities	**P88,166**	**P88,166**	P90,979	P90,979

10. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share is computed as follows:

	September 30	
	2019 (Unaudited)	2018 (Unaudited)
Net income attributable to equity holders of the Parent Company	**P11,394,618**	P4,347,627
Distributions to Undated Subordinated Capital Securities ("USCS") holders for the period	**(2,388,126)**	(2,424,040)
Distributions to Redeemable Perpetual Securities ("RPS") holder for the period	**(1,583,182)**	(1,171,354)
Distributions to Senior Perpetual Capital Securities ("SPCS") holders for the period	**(1,363,623)**	-
Net income attributable to common shareholders of the Parent Company (a)	**6,059,687**	752,233
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004
Basic/Diluted Earnings Per Share (a/b)	**P4.85**	P0.60

As of September 30, 2019 and 2018, the Group has no dilutive debt or equity.

11. Distributions

Distributions to 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:

	September 30	
	2019 (Unaudited)	2018 (Unaudited)
February	**P757,133**	P746,068
May	**837,321**	830,491
August	**758,435**	767,981
	P2,352,889	P2,344,540

On August 5, 2019, the Parent Company's Board of Directors ("BOD") approved the payment of distribution in the total amount of US$11,250, plus applicable taxes, on November 7, 2019 to the holders of the US$300,000 USCS issued in May 2014.

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

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

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

Details of distributions paid to RPS holders are as follows:

	September 30	
	2019 (Unaudited)	2018 (Unaudited)
March	**P530,512**	P -
June	**527,363**	543,156
September	**525,992**	536,758
	P1,583,867	P1,079,914

12. Financial Risk and Capital Management Objectives and Policies

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

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

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

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

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

Interest Rate Risk Table

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

September 30, 2019 (Unaudited)	**1 Year or Less**	**>1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P2,725,892**	**P9,784,142**	**P17,758,891**	**P33,147,644**	**P27,757,284**	**P66,091,728**	**P157,265,581**
Interest rate	**6.2836% to 7.7521%**	**4.3458% to 7.7521%**	**6.2836% to 7.7521%**	**4.7575% to 7.7521%**	**6.2836% to 7.7521%**	**5.1792% to 7.7521%**	
Foreign Currency-denominated (expressed in Philippine peso)	**1,994,957**	**2,554,675**	**2,687,390**	**6,748,318**	**1,023,791**	**13,083,524**	**28,092,655**
Interest rate	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**4.7776% to 5.5959%**	**5.5959%**	**5.5959%**	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**663,362**	**11,213,965**	**892,031**	**28,160,379**	**336,995**	**4,306,612**	**45,573,344**
Interest rate	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	**LIBOR + Margin**	
	P5,384,211	**P23,552,782**	**P21,338,312**	**P68,056,341**	**P29,118,070**	**P83,481,864**	**P230,931,580**

December 31, 2018 (Audited)	1 Year or Less	>1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P2,436,391	P2,896,390	P9,834,640	P13,825,163	P23,232,643	P75,896,773	P128,122,000
Interest rate	6.2836% to 7.7521%	6.2836% to 7.7521%	4.3458% to 7.7521%	5.3750% to 7.7521%	4.7575% to 7.7521%	5.1792% to 7.7521%	
Foreign Currency-denominated (expressed in Philippine peso)	1,949,148	2,477,048	2,606,388	1,838,347	6,814,415	12,221,564	27,906,910
Interest rate	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	4.7776% to 5.5959%	5.5959%	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	648,209	822,347	11,381,301	609,014	36,444,509	4,023,222	53,928,602
Interest rate	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	LIBOR + Margin	
	P5,033,748	P6,195,785	P23,822,329	P16,272,524	P66,491,567	P92,141,559	P209,957,512

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P205,175 and P109,809 for the period ended September 30, 2019 and for the year ended December 31, 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

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

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

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

		September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents		**US$949,708**	**P49,223,379**	US$289,050	P15,198,248
Trade and other receivables		**280,650**	**14,546,092**	157,125	8,261,638
Investment in debt instruments		**18**	**900**	1,027	54,009
		1,230,376	**63,770,371**	447,202	23,513,895
Liabilities					
Loans payable	*7*	**45,000**	**2,332,350**	165,000	8,675,700
Accounts payable and accrued expenses		**125,539**	**6,506,688**	153,013	8,045,444
Long-term debt (including current maturities)	*8*	**1,421,300**	**73,665,979**	1,556,400	81,835,512
Lease liabilities (including current portion)	*9*	**1,337,163**	**69,305,156**	1,498,645	78,798,731
Other noncurrent liabilities		**5,102**	**264,432**	3,456	181,705
		2,934,104	**152,074,605**	3,376,514	177,537,092
Net Foreign Currency-denominated Monetary Liabilities		**US$1,703,728**	**P88,304,234**	US$2,929,312	P154,023,197

The Group reported net gain (loss) on foreign exchange amounting to P1,483,530 and (P8,487,071) for the periods ended September 30, 2019 and 2018, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 13). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
September 30, 2019	**51.83**
December 31, 2018	52.58
September 30, 2018	54.02
December 31, 2017	49.93

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

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
September 30, 2019 (Unaudited)	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P901,714)**	**(P683,284)**	**P901,714**	**P683,284**
Trade and other receivables	**(85,666)**	**(251,160)**	**85,666**	**251,160**
Investment in debt instruments	**-**	**(18)**	**-**	**18**
	(987,380)	**(934,462)**	**987,380**	**934,462**
Loans payable	**-**	**45,000**	**-**	**(45,000)**
Accounts payable and accrued expenses	**12,955**	**121,653**	**(12,955)**	**(121,653)**
Long-term debt (including current maturities)	**700,000**	**1,211,300**	**(700,000)**	**(1,211,300)**
Lease liabilities (including current portion)	**1,335,462**	**936,525**	**(1,335,462)**	**(936,525)**
Other noncurrent liabilities (including current portion)	**2,386**	**4,386**	**(2,386)**	**(4,386)**
	2,050,803	**2,318,864**	**(2,050,803)**	**(2,318,864)**
	P1,063,423	**P1,384,402**	**(P1,063,423)**	**(P1,384,402)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2018 (Audited)	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P249,946)	(P214,066)	P249,946	P214,066
Trade and other receivables	(89,044)	(133,806)	89,044	133,806
Investment in debt instruments	-	(1,027)	-	1,027
	(338,990)	(348,899)	338,990	348,899
Loans payable	120,000	129,000	(120,000)	(129,000)
Accounts payable and accrued expenses	46,673	138,988	(46,673)	(138,988)
Long-term debt (including current maturities)	850,000	1,301,400	(850,000)	(1,301,400)
Finance lease liabilities (including current portion)	784,542	1,049,570	(784,542)	(1,049,570)
Other noncurrent liabilities	3,132	2,516	(3,132)	(2,516)
	1,804,347	2,621,474	(1,804,347)	(2,621,474)
	P1,465,357	P2,272,575	(P1,465,357)	(P2,272,575)

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

Commodity Price Risk

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

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

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

Liquidity Risk

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

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

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

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

September 30, 2019 (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	P74,448,156	P74,448,156	P74,448,156	P -	P -	P -
Trade and other receivables - net*	31,612,466	31,612,466	31,612,466	-	-	-
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	900	900	900	-	-	-
Derivative assets not designated as a cash flow hedge (included under "Prepaid expenses and other current assets" account)	3,173	3,173	3,173	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	113,033	113,033	-	34,280	78,753	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	404,172	442,681	49,576	49,632	149,727	193,746
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	6,848,847	6,848,847	2,465,376	3,252,166	-	1,131,305
Financial Liabilities						
Loans payable	2,332,350	2,332,350	2,332,350	-	-	-
Accounts payable and accrued expenses*	20,814,285	20,814,285	20,814,285	-	-	-
Derivative liabilities	52,299	52,299	52,299	-	-	-
Long-term debt - net (including current maturities)	228,028,352	302,546,995	18,827,768	36,345,770	146,029,668	101,343,789
Lease liabilities (including current portion)	127,888,939	150,800,304	28,906,949	29,746,337	69,354,649	22,792,369
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	550,332	550,319	50,256	48,443	83,393	368,227

**Excluding statutory receivables and payables*

December 31, 2018 (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	P28,511,862	P28,511,862	P28,511,862	P -	P -	P -
Trade and other receivables - net*	32,964,489	32,964,489	32,964,489	-	-	-
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	54,009	54,009	54,009	-	-	-
Derivative asset not designated as cash flow hedge (included under "Prepaid expenses and other current assets" account)	96,203	96,203	96,203	-	-	-
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	163,630	163,630	-	-	163,630	-
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	344,440	371,445	79,143	39,427	115,903	136,972
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	4,742,219	4,742,219	1,045,598	3,696,621	-	-
Financial Liabilities						
Loans payable	8,675,700	8,675,700	8,675,700	-	-	-
Accounts payable and accrued expenses*	23,001,830	23,001,830	23,001,830	-	-	-
Long-term debt - net (including current maturities)	206,965,260	281,593,786	16,872,297	17,734,562	134,539,115	112,447,812
Finance lease liabilities (including current portion)	142,007,061	169,122,008	26,999,954	29,670,859	76,222,388	36,228,807
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	385,232	383,011	53,049	55,533	89,331	185,098

**Excluding statutory receivables and payables*

Credit Risk

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

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

Trade and Other Receivables

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

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

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

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

	September 30 2019 (Unaudited)	December 31 2018 (Audited)
Cash and cash equivalents (excluding cash on hand)	**P74,446,168**	P28,509,806
Trade and other receivables - net*	**31,612,466**	32,964,489
Investment in debt instruments	**900**	54,009
Derivative assets not designated as cash flow hedge	**3,173**	96,203
Derivative assets designated as cash flow hedge	**113,033**	163,630
Noncurrent receivables	**404,172**	344,440
Restricted cash	**6,848,847**	4,742,219
	P113,428,759	P66,874,796

**Excluding statutory receivables*

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

	Financial Assets at Amortized Cost					
September 30, 2019 (Unaudited)	**12-month ECL**	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P74,446,168**	**P -**	**P -**	**P -**	**P -**	**P 74,446,168**
Trade and other receivables*	**-**	**31,612,466**	**2,783,823**	**-**	**-**	**34,396,289**
Investment in debt instruments	**900**	**-**	**-**	**-**	**-**	**900**
Derivative assets not designated as cash flow hedge	**-**	**-**	**-**	**3,173**	**-**	**3,173**
Derivative assets designated as cash flow hedge	**-**	**-**	**-**	**-**	**113,033**	**113,033**
Noncurrent receivables	**-**	**404,172**	**-**	**-**	**-**	**404,172**
Restricted cash	**6,848,847**	**-**	**-**	**-**	**-**	**6,848,847**
	P81,295,915	**P32,016,638**	**P2,783,823**	**P3,173**	**P113,033**	**P116,212,582**

**Excluding statutory receivables*

December 31, 2018 (Audited)	Financial Assets at Amortized Cost: 12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P28,509,806	P -	P -	P -	P -	P28,509,806
Trade and other receivables*	-	32,964,489	2,574,423	-	-	35,538,912
Investment in debt instruments	54,009	-	-	-	-	54,009
Derivative asset not designated as cash flow hedge	-	-	-	96,203	-	96,203
Derivative assets designated as cash flow hedge	-	-	-	-	163,630	163,630
Noncurrent receivables	-	344,440	-	-	-	344,440
Restricted cash	4,742,219	-	-	-	-	4,742,219
	P33,306,034	P33,308,929	P2,574,423	P96,203	P163,630	P69,449,219

**Excluding statutory receivables*

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

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

	September 30, 2019 (Unaudited)				December 31, 2018 (Audited)			
	Trade	**Non-trade**	**Amounts Owed by Related Parties**	**Total**	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	**P13,211,466**	**P1,782,489**	**P771,748**	**P15,765,703**	P10,002,101	P1,283,318	P5,291,656	P16,577,075
Past due:								
1-30 days	**1,715,523**	**62,337**	**193,933**	**1,971,793**	2,454,136	145,195	419,050	3,018,381
31-60 days	**397,334**	**287,404**	**1,736**	**686,474**	1,022,937	101,006	9,972	1,133,915
61-90 days	**521,338**	**69,704**	**26,712**	**617,754**	280,786	173,005	6,749	460,540
Over 90 days	**7,567,672**	**7,311,690**	**475,203**	**15,354,565**	7,639,786	6,353,193	356,022	14,349,001
	P23,413,333	**P9,513,624**	**P1,469,332**	**P34,396,289**	P21,399,746	P8,055,717	P6,083,449	P35,538,912

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

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

The Group has significant concentration of credit risk. Sale of power to Meralco accounts for 48% and 47% of the Group's total revenues for the periods ended September 30, 2019 and 2018.

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

Other Market Price Risk

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

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

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

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

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

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

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

13. Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

- how employees of the business are compensated; and

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

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

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

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

- prepayment and extension features; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group's derivative assets designated as cash flow hedge are classified under this category.

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

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

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

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

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. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

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

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

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

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest 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.

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for ECL on financial assets at amortized cost.

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

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

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

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

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

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

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

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

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

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

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Offsetting Financial Instruments

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

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

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P74,448,156**	**P74,448,156**	P28,511,862	P28,511,862
Trade and other receivables - net*	**31,612,466**	**31,612,466**	32,964,489	32,964,489
Investment in debt instruments (included under "Prepaid expenses and other current assets" account)	**900**	**900**	54,009	54,009
Derivative assets not designated as cash flow hedge (included under "Prepaid expenses and other current assets" accounts)	**3,173**	**3,173**	96,203	96,203
Derivative assets designated as cash flow hedge (included under "Other noncurrent assets" account)	**113,033**	**113,033**	163,630	163,630
Noncurrent receivables (included under "Other noncurrent assets" account; including current portion)	**404,172**	**404,172**	344,440	344,440
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**6,848,847**	**6,848,847**	4,742,219	4,742,219
	P113,430,747	**P113,430,747**	P66,876,852	P66,876,852
Financial Liabilities				
Loans payable	**P2,332,350**	**P2,332,350**	P8,675,700	P8,675,700
Accounts payable and accrued expenses*	**20,814,285**	**20,814,285**	23,001,830	23,001,830
Derivative liabilities	**52,299**	**52,299**	-	-
Long-term debt - net (including current maturities)	**228,028,352**	**251,388,664**	206,965,260	209,582,998
Lease liabilities (including current portion)	**127,888,939**	**127,888,939**	142,007,061	142,007,061
Other noncurrent liabilities (including current portions of Concession liability and Premium on option liabilities)	**550,332**	**557,585**	385,232	392,867
	P379,666,557	**P403,034,122**	P381,035,083	P383,660,456

**Excluding statutory receivables and payables*

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

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

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

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

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.96% to 4.73% and 5.22% to 7.06% as of September 30, 2019 and December 31, 2018, respectively. Discount rates used for foreign currency-denominated loans range from 1.55% to 2.05% and 2.46% to 2.97% as of September 30, 2019 and December 31, 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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

Derivative Financial Instruments

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

Call Spread Swaps

As of September 30, 2019, the Group has outstanding call spread swaps designated as cash flow hedges with an aggregate notional amount of US$100,000 and with an average strike rate range of P52.95 to P56.15. The call spread swaps are designated to hedge foreign currency exposure on US dollar-denominated loans maturing in March 2021 and 2023. The positive fair value of the call spread swaps, included under "Other noncurrent assets account", amounted to P113,033 and P163,630 as of September 30, 2019 and December 31, 2018, respectively.

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

	September 30 2019 (Unaudited)	December 31 2018 (Audited)
Balance at beginning of period	**(P1,844)**	P -
Changes in fair value of derivatives	**(50,598)**	(24,747)
Amount reclassified to profit or loss:		
Interest expense and other financing charges	**39,599**	22,113
Income tax benefit	**3,299**	790
Balance at end of period	**(P9,544)**	(P1,844)

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the consolidated statements of income for the period ended September 30, 2019 and for the year ended December 31, 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Currency Forwards
The Group entered into foreign currency forward contracts with an aggregate notional amount of US$40,000. The negative fair value of the currency forward amounted to P983 as of December 31, 2018.

The Group has no outstanding currency forwards as of September 30, 2019.

Commodity Swap
The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary for the calendar year 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swap is 159,000 metric tons and 60,000 metric tons as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019 and December 31, 2018, the value of this swap amounted to a negative fair value of P49,126 and a positive fair value of P96,203, respectively.

The Group recognized marked-to-market gains (losses) from freestanding derivatives amounting to (P246,207) and P73,378 for the periods ended September 30, 2019 and 2018, respectively.

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

	September 30 2019 (Unaudited)	December 31 2018 (Audited)
Balance at beginning of period	**P258,850**	P61,903
Net change in fair value of derivatives:		
Not designated as accounting hedge	**(246,207)**	23,036
Designated as accounting hedge	**(50,598)**	185,743
	(37,955)	270,682
Less fair value of settled instruments	**(101,862)**	11,832
Balance at end of period	**P63,907**	P258,850

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

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

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

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

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

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

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

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

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

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

14. Other Matters

a. Contingencies

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

i. *Temporary Restraining Order (TRO) Issued to MERALCO.*

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

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

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

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

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. On May 9, 2014, the ERC issued an order directing PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

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

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

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

Motions for reconsideration of the November 7, 2017 decision and motions for intervention and motions to admit motions for reconsideration were filed by various intervenors.

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

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

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

iii. Generation Payments to PSALM

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

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

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

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court (RTC) of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond of SPPC. The TRO was extended 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 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Illijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order 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 CA seeking to annul the RTC's order dated June 27, 2016. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders".

The CA, however, denied the petition filed by PSALM in its decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the CA upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. On March 9, 2018, SPPC filed its Opposition to PSALM's Motion for Reconsideration of the CA Decision. In a Resolution dated July 12, 2018 (the "CA Resolution"), the CA denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the SC praying for the reversal and nullification of the CA Decision and the CA Resolution. Said petition was denied by the SC in its resolution dated March 4, 2019 due to lack of payment and for PSALM's failure to sufficiently show that the CA committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court's discretionary appellate jurisdiction.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

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

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC.

On August 23, 2019, the CA dismissed the Petition for Certiorari filed by PSALM.

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

iv. *Criminal Cases*

SPPC

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

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

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

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

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

v. *Civil Cases*

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

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

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

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

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

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

As of September 30, 2019 and December 31, 2018, the total amount consigned with the RTC Pasig is P491,242, included under "Other noncurrent assets", particularly "Restricted cash" account, in the interim consolidated statements of financial position.

b. Significant Transactions

i. *Additional Capital infusion in Mariveles Power Generation Corp. (MPGC)*

On January 25, 2019, the Parent Company subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing the Parent Company's ownership interest in MPGC from 49% to 73.58%, and an additional 28,929,347 common shares out of the increase in the authorized capital stock of MPGC at the subscription price of P100 per share, or total subscription amount of P4,724,425. In May 2019, the Parent Company subscribed to an additional 29,070,653 common shares out of the aforesaid increase at the subscription price of P100 per share, or total subscription amount of P2,907,065. The increase of the authorized capital stock of MPGC was approved by the Philippine Securities and Exchange Commission on September 6, 2019.

As of September 30, 2019, the Parent Company has paid P5,548,316 of the total subscriptions and further increased its ownership interest in MPGC to 89.54%. The additional capital infusion will finance in part the power plant project of MPGC.

Non-controlling interest pertains to the remaining interest held by Meralco PowerGen Corporation (10.05%) and by Zygnet Prime Holdings, Inc. (0.41%) in MPGC as of September 30, 2019.

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

ii. *Issuance of SPCS*

On April 25, 2019, the Parent Company issued US$500,000 SPCS (the "Original Securities") at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019. The net proceeds of the Original Securities will be used and applied by the Parent Company for the redemption of US$300,000 USCS in November 2019, and for general corporate purposes, including capital expenditures and investments in power-related assets.

On July 3, 2019, Parent Company issued an additional US$300,000 SPCS (the "Additional Securities") at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities are consolidated into and form a single series with the Original Securities issued in April 2019, bringing its total securities to US$800,000 (the "Securities"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019. The net proceeds of the Additional Securities will be used by the Parent Company for general corporate purposes, investments in power-related assets and repayment of indebtedness.

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

On October 25, 2019, the Parent Company paid distributions amounting to US$26,000 to the holders of the US$800,000 Securities.

c. Events After the Report Date

On November 4, 2019, the Parent Company's BOD approved the payment of distribution in the total amount of US$10,125, plus applicable taxes, on February 26, 2020, to the holders of the US$300,000 USCS issued in August 2015 and the payment of distribution, amounting to US$10,156 on December 16, 2019, to the Security Holder of the US$650,000 RPS.

d. Others

i. 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.

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

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

iv. 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.

v. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in the contingent liabilities and contingent assets since the last annual reporting date. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

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

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

viii. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of September 30, 2019. These consist of construction of power plants and acquisition of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash and long-term loans.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that SMC Global Power Holdings Corp. and Subsidiaries (the Group) use. Analyses are employed by comparisons and measurements based on the financial data as of September 30, 2019 and December 31, 2018 for liquidity, solvency and profitability ratios and for the periods ended September 30, 2019 and 2018 for operating efficiency ratios.

LIQUIDITY RATIO

Current Ratio = **Current Assets** / **Current Liabilities**

	Conventional		*Adjusted*[1]	
(in Millions P)	**September 2019**	December 2018	**September 2019**	December 2018
(A) Current Assets	**132,948**	88,615	**132,948**	88,615
(B) Current Liabilities	**60,005**	64,696	**37,700**	45,105
Current Ratio (A) / (B)	**2.22**	1.37	**3.53**	1.96

(1) Current portion of finance lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on finance lease are pass-through charges billable to customers. As of September 30, 2019 and December 31, 2018, current portion of finance lease liabilities amounted to P22,305 million and P19,591 million, respectively.

SOLVENCY RATIO

Net Debt-to-Equity* Ratio = **Net Debt** / **Total Equity**

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	**September 2019**	December 2018
(A) Net Debt[2]	**227,053**	269,349
(B) Total Equity[3]	**141,879**	96,217
Net Debt-to-Equity Ratio (A) / (B)	**1.60**	2.80

(2) Consolidated net total debt plus total PSALM finance lease liabilities.
(3) Consolidated total equity
**All items are net of amounts attributable to ring-fenced subsidiaries*

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

(in Millions P)	*Conventional* September 2019	December 2018	*Adjusted*[(4)] September 2019	December 2018
(A) Total Assets	**545,433**	493,850	**381,936**	326,463
(B) Total Equity	**144,574**	95,758	**144,574**	95,758
Asset-to-Equity Ratio (A) / (B)	**3.77**	5.16	**2.64**	3.41

(4) Net carrying amounts of the IPPA power plants, in relation to the IPPA Agreements with PSALM were omitted in total assets as these power plant assets were capitalized with corresponding finance lease liabilities. As of September 30, 2019 and December 31, 2018, net carrying amount of IPPA power plant assets amounted to P163,497 million and P167,387 million, respectively.

PROFITABILTY RATIO

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

(in Millions P)	**September 2019**	December 2018
(A) Net Income[(5)]	**15,319**	8,300
(B) Total Equity	**144,574**	95,758
Return on Equity (A) / (B)	**10.6%**	8.7%

(5) Annualized for quarterly reporting.

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

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	**September 2019**	December 2018
(A) EBITDA[(6)]	**37,592**	36,432
(B) Interest Expense[(7)]	**15,751**	14,472
Interest Coverage Ratio (A) / (B)	**2.39**	2.52

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

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

OPERATING EFFICIENCY

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

	Periods Ended September 30	
(in GWh)	**2019**	2018
(A) Current Period Offtake Volume	**21,581**	17,670
(B) Prior Period Offtake Volume	**17,670**	12,818
Volume Growth (Decline) [(A / B) – 1]	**22.1%**	37.9%

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

	Periods Ended September 30	
(in Millions P)	**2019**	2018
(A) Current Period Revenue	**105,142**	89,111
(B) Prior Period Revenue	**89,111**	62,117
Revenue Growth (Decline) [(A / B) – 1]	**18.0%**	43.5%

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

	Periods Ended September 30	
(in Millions P)	**2019**	2018
(A) Income from Operating Activities	**29,974**	25,753
(B) Revenues	**105,142**	89,111
Operating Margin (A) / (B)	**28.5%**	28.9%

SMC GLOBAL POWER

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended September 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2019, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2019 SIGNIFICANT TRANSACTIONS

INVESTMENTS

- *Additional capital infusion in Mariveles Power Generation Corporation ("MPGC")*

  On January 25, 2019, SMC Global Power subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing SMC Global Power's ownership interest in MPGC from 49% to 74%, and an additional 28,929,347 common shares out of the increase in the authorized capital stock of MPGC, at the subscription price of P100 per share, or a total subscription amount of P4,724 million. In May 2019, SMC Global Power subscribed to an additional 29,070,653 common shares out of the aforesaid increase at the subscription price of P100 per share, or a total subscription amount of P2,907 million. The increase of the authorized capital stock of MPGC was approved by the Philippine Securities and Exchange Commission ("SEC") on September 6, 2019.

  As of September 30, 2019, SMC Global Power has paid P5,548 million of the total subscriptions and further increased its ownership interest in MPGC to 90%. The additional capital infusion will finance in part the power plant project of MPGC.

LONG-TERM DEBT

- *Availment of loan to finance capex/project*

  San Miguel Consolidated Power Corporation ("SMCPC")

  On July 31, 2019, SMCPC drew the remaining P978 million from a P21,300 million, 12-year Omnibus Loan and Security Agreement ("OLSA") with a syndicate of local banks dated August 9, 2018. The loan is subject to a fixed interest rate of 6.5077% and payable in quarterly installments up to August 2030. Proceeds of the loan were used mainly to finance the remaining payables from the construction works for the Davao Greenfield Power Plant.

Masinloc Power Partners Co. Ltd ("MPPCL")

On January 11, 2019, MPPCL drew US$35 million (P1,824 million) from the US$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300 megawatts ("MW"; "Masinloc Power Plant Unit 3") coal-fired power plant within the existing facilities of MPPCL. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month London Interbank Offered Rate plus margin with maturities up to December 2030.

- *Payment of long-term debt*

In 2019, SMC Global Power, MPPCL, SMCPC and SCPC have paid a total of P10,703 million of its outstanding long-term debts, pursuant to the terms and conditions of their respective facility agreements.

FIXED-RATE PESO-DENOMINATED BONDS

- *Shelf-registration of P60,000 million worth of fixed-rate Peso-denominated bonds by SMC Global Power and issuance of P30,000 million bonds*

On March 29, 2019, the SEC approved the shelf-registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global Power.

On April 24, 2019, SMC Global Power issued and listed in the Philippine Dealing & Exchange Corp. the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million.

The bonds are comprised of the three-year Series H Bonds due 2022, five-year Series I Bonds due 2024 and seven-year Series J Bonds due 2026.

The Series H, I and J Bonds have fixed interest rates per annum equivalent to 6.8350%, 7.1783% and 7.6000%, respectively.

The net proceeds were used by SMC Global Power to partially refinance existing loan obligations (remaining US$150 million term loan used for the Masinloc acquisition, and US$120 million short-term loan), for investments in power-related assets, and for payment of transaction-related fees, costs and expenses.

SENIOR PERPETUAL CAPITAL SECURITIES

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

On April 25, 2019, SMC Global Power issued US$500 million SPCS (the "Original Securities") at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019. The net proceeds of the Original Securities will be used and applied by SMC Global Power for the redemption of US$300 million Undated Subordinated Capital Securities ("USCS") in November 2019, and for general corporate purposes, including capital expenditures and investments in power-related assets.

On July 3, 2019, SMC Global Power issued an additional US$300 million SPCS (the "Additional Securities'') at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (and excluding) July 3, 2019. The Additional Securities are consolidated into and form a single series with the Original Securities issued in April 2019, bringing its total securities to US$800 million (the "Securities"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019. The net proceeds of the Additional Securities will be used by SMC Global Power for general corporate purposes, investments in power-related assets and repayment of indebtedness.

As of September 30, 2019, the net proceeds of the Securities are still part of the cash and cash equivalents balance.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

Revenues

The Group's consolidated revenues for the first three quarters of 2019 registered at P105,142 million, 18% or P16,031 million higher than last year's P89,111 million for the same period. The increase was driven by: (i) the revenues contributed by the Masinloc Power Plant's full nine months net generation of 3,409 gigawatt hours ("GWh") in 2019 vs 2,285 GWh in 2018 - covering only 194 days from the March 20, 2018 acquisition date of the Masinloc Group (comprising of SMCGP Masin Pte. Ltd. and subsidiaries, SMCGP Transpower Pte. Ltd. and SMCGP Philippines Inc.), (ii) the revenues from the full nine months operations of SMCPC's Davao Greenfield Power Plant Unit 2 and of SCPC's Limay Greenfield Power Plant Unit 3 which commenced commercial operations on February 26, 2018 and March 26, 2018, respectively, (iii) additional revenues from SCPC Limay Greenfield Power Plant Unit 4 which started commercial operations on July 26, 2019, and (iv) higher offtake volume of South Premiere Power Corp. ("SPPC") due to higher Meralco nominations resulting from longer operating hours of the Ilijan Power Plant coupled with higher average realization price, partly offset by (v) the decline in revenues of San Miguel Energy Corporation ("SMEC") on account of lower average realization price for its bilateral sales, and (vi) lower revenues of Strategic Power Devt. Corp. ("SPDC") due to lower spot sales volume and average prices.

Cost of Power Sold

Cost of power sold likewise increased by 19% or P10,890 million, from P58,734 million for the first three quarters of 2018 to P69,624 million for the same period of 2019. The increase was mainly attributable to the following: (i) costs incurred by MPPCL during its full nine months operations in 2019, (ii) higher costs incurred by SMCPC and SCPC from the full nine months operations of the combined additional 2 Units, with capacity of 150 MW each, (iii) costs incurred for the 66 days operations of SCPC Unit 4, (iv) higher spot purchases of SMEC, SPDC and Albay Power and Energy Corp. ("APEC") to meet the additional power requirements of customers, and (v) higher energy fees due to longer operating hours resulting from lower outages of Ilijan and Sual Power Plants, and higher average natural gas price for Ilijan.

Selling and Administrative Expenses

Selling and administrative expenses increased by 20% or P919 million, from P4,625 million for the first three quarters of 2018 to P5,544 million for the same period of 2019. The increase was mainly due to: (i) the additional operating expenses contributed by the newly acquired MPPCL, (ii) contributions to registered donee institutions for programs on education and environment and (iii) higher personnel expenses of the Group.

Income from Operations

As a result, consolidated income from operations of P29,974 million for the first three quarters of 2019, grew by 16% or P4,221 million, from last year's P25,753 million.

Other Income (Charges)

Net foreign exchange differential, arising mainly from the Group's US dollar-denominated liabilities, made a complete turnaround from a P8,487 million loss recognized in the first three quarters of 2018 to a P1,484 million gain in 2019 on account of the appreciation of the Philippine peso against the US dollar during the first three quarters of 2019 as compared to the same period last year.

Interest expense and other financing charges increased by 22% or P2,816 million due mainly to higher interest expense recognized on: (i) the long and short-term borrowings obtained by SMC Global Power to partially finance the Masinloc acquisition and to fund capital expenditures of MPGC, (ii) project financing of SCPC and SMCPC; (iii) existing long-term loans of MPPCL, and partially offset by (iv) lower interest expense on the Independent Power Producer Administrators ("IPPAs") finance lease liabilities.

Equity in net losses of associates and joint ventures dipped from P254 million loss in 2018 to P296 million loss in 2019 primarily from the operations of Angat Hydropower Corporation ("AHC") for the first three quarters of 2019.

Income Tax Expense

Income tax expense more than doubled from last year's P1,630 million to P5,643 million for the same period this year as a result of (i) higher provision for deferred income tax expense recognized by the IPPA entities on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation ("PSALM") over the finance lease liability-related expenses, particularly on foreign exchange differential, (ii) higher deferred income tax of SCPC, SMCPC and MPPCL arising from the temporary differences on foreign exchange translation and capitalized borrowing costs, (iii) higher provision for current income tax resulting from higher taxable income of SPPC and MPPCL, and partly offset by (iv) lower provision for current income tax recognized by SMEC due to the decline in taxable income.

Net Income

Consequently, the consolidated net income of the Group for the first three quarters increased by 161% or P7,019 million from P4,366 million in 2018 to P11,385 million in 2019. Unrealized foreign exchange differential significantly improved from a P7,062 million loss recognized in 2018 to a P2,138 million gain in 2019 brought by the appreciation of the Philippine peso against the US dollar.

2018 vs. 2017

Revenues

The Group's consolidated revenues for the nine months ended September 30, 2018 registered at P89,111 million, 43% or P26,994 million higher than previous year's P62,117 million for the same period. The increase was driven by: (i) revenues contributed by the newly acquired Masinloc Power Plant; (ii) additional revenues from the commercial operations of SCPC's Limay Greenfield Power Plant Units 1, 2 and 3 (starting in May 2017, September 2017 and March 2018, respectively) and SMCPC's Davao Greenfield Power Plant Units 1 and 2 (starting in July 2017 and February 2018, respectively); (iii) additional contracted customers of San Miguel Electric Corp. ("SMELC"); (iv) higher average prices for Sual bilateral and spot offtake volumes; and (v) higher spot sales for Ilijan.

Cost of Power Sold

Cost of power sold likewise increased by 50% or P19,630 million, from P39,104 million for the nine months ended September 30, 2017 to P P58,734 million for the same period of 2018. The increase was mainly attributable to the following: (i) costs incurred by the newly acquired Masinloc Power Plant; (ii) higher costs incurred by SCPC and SMCPC due to the start of commercial operations of its power plants; and (iii) higher power distribution costs incurred by the Group's retail electricity supplier ("RES")-licensed companies namely, SMELC and SCPC, due to the increase in its customers.

Selling and Administrative Expenses

Selling and administrative expenses also increased by 38% or P1,281 million, from P3,344 million for the nine months ended September 30, 2017 to P4,625 million in 2018. The increase was mainly due to the operating expenses incurred by the newly acquired Masinloc entities and additional professional fees incurred for legal and financial advisory services rendered by third parties which were engaged by SMC Global Power for the acquisition of Masinloc Group in March 2018.

Income from Operations

As a result, consolidated income from operations of P25,753 million for the nine months ended September 30, 2018, grew by 31% or P6,085 million from previous year's P19,668 million.

Other Income (Charges)

Net foreign exchange differential, arising mainly from the Group's US dollar-denominated liabilities, declined from P2,775 million loss in 2017 to P8,487 million loss in 2018 on account of the significant depreciation of the Philippine peso against the US dollar during the nine months ended September 30, 2018 as compared to the same period of previous year.

Interest expense and other financing charges increased by 25% or P2,553 million due to the following: (i) higher interests recognized by SMC Global Power on its redenominated loans and additional long-term borrowings obtained to finance the Masinloc acquisition, (ii) higher financing charges expensed by SCPC since the start of commercial operations of its Limay Greenfield Power Plant Units 1, 2 and 3, which were previously capitalized during the aforesaid units' construction; and (iii) financing charges incurred by the newly acquired MPPCL from its short and long-term borrowings.

Income Tax Expense

Income tax expense of P1,630 million for the nine months ended September 30, 2018 was lower by 52% or P1,752 million compared to previous year's P3,382 million, as a result mainly of lower deferred income tax expense arising from the temporary differences relating to the IPPA entities' finance lease liability-related expenses.

Net Income

Consequently, the consolidated net income of the Group for the nine months ended September 30, 2018 decreased by 24% or P1,353 million from P5,719 million in 2017 to P4,366 million in 2018.

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

1. **POWER GENERATION**

   2019 vs. 2018

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

      For the first three quarters of 2019, net generation of 5,612 GWh at 86% net capacity factor rate was 16% higher than the same period last year mainly due to lower outage hours for Unit 2. In 2018, outages were mainly attributable to the annual maintenance outage of Unit 1 for 60 days from September 1 to October 30 and maintenance outage of Unit 2 for the installation of main unit of transformer from January 18 to February 12. Planned maintenance outages of Units 1 and 2 are scheduled in the last quarter of 2019. Total offtake volume increased to 7,411 GWh from last year's 6,505 GWh on account of higher Meralco nominations and bilateral sales volume.

      Revenues of P32,609 million was 2% higher than last year's P32,101 million mainly attributable to higher offtake volumes offset by lower average realization price for bilateral customers.

      Operating income of P5,772 million was 33% lower than last year's P8,673 million on account of lower average realization prices for bilateral sales and higher average cost of replacement and spot power purchases supplied to bilateral customers.

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

      The net generation of Ilijan Power Plant for the first three quarters of 2019 of 6,154 GWh grew by 6% attributable to shorter outage hours incurred by the power plant during the current period. The 37-day planned major inspection of Block 2 was conducted on July 25 to August 30 while the combustor inspection of Block 1 was scheduled on September 21 to October 18. Last year, Block 1 and 2 underwent turbine and combustor inspection for 29 days and 24 days, respectively.

      Revenues of P30,190 million for the period ended September 30, 2019 was 12% higher than 2018. The 5% increase in total offtake volume from 5,884 GWh on the same period last year to 6,195 GWh was attributable to higher Meralco nominations, coupled with higher average bilateral and selling prices.

Consequently, operating income of P9,215 million in 2019 was 19% higher than the P7,762 million posted in 2018.

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

The San Roque Power Plant's net generation of 640 GWh at 28% net capacity factor rate for the first three quarters of 2019 fell by 22% due to low reservoir level at an average of 256 meters above sea level (masl) in 2019 vs 259 masl in 2018. In 2018, the power plant was tagged as a Must Run Unit due to high water level resulting from frequent monsoon and typhoons. Consequently, total offtake volume of 948 GWh, largely those sold in the spot market, decreased by 11% compared to the same period last year.

Nevertheless, revenues for the period still increased by 16%, from P5,315 million last year to P6,184 million this year, due mainly to higher average selling prices for replacement power sales and increase in revenue from sale of contract capacity.

The foregoing factors contributed to the improvement of operating income by 28% from P2,130 million in 2018 to P2,721 million in 2019.

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

The four units of the Limay Greenfield Power Plant, with a combined capacity of 600 MW, commenced commercial operations on May 26, 2017, September 26, 2017, March 26, 2018 and July 26, 2019, respectively, following the completion of testing and commissioning phase and the Energy Regulatory Commission ("ERC") issuance of a Provisional Authority to Operate ("PAO"). Total generation of the power plant reached 2,434 GWh, at 86% net capacity factor rate, for the first three quarters of 2019. This was 33% higher than last year at, 1,824 GWh, due primarily to the full nine months operations of Unit 3 and 66 days of operation of Unit 4. SCPC dispatched 1,321 GWh of the plant's net generation to its power generation customers while the rest was dispatched to its RES customers. Total offtake volume of 1,735 GWh exceeded last year by 27% due to higher offtake volumes sold to various customers (contracted for the full capacity of Units 3 and 4), and as replacement power to SMEC and MPPCL.

For the first three quarters of 2019, revenues increased by 26% to P7,928 million this year from P6,285 million last year as bilateral offtake volume and spot selling prices increased.

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

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

For the first three quarters of 2019, a total of 1,438 GWh was generated by the power plant at a capacity factor rate of 83%. This was 41% higher compared to the same period last year due to the full nine months operations of Unit 2.

Revenues at P8,106 million topped last year by 48% on account of additional bilateral customers and the increase in nominations and load following demand from its existing bilateral customers. This was despite the slight decrease in average realization price due to lower average pass-through fuel rate on capacity-based contracts.

Accordingly, operating income registered at P3,157 million or 62% higher than the same period last year.

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

The Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 619 MW, contributed a full nine months total net generation of 3,409 GWh for 2019, 49% higher compared to last year's net generation of 2,285 GWh for the period starting March 20, 2018 (date of acquisition) to September 30, 2018.

Total offtake volume of 4,338 GWh was sold to distribution utilities and electric cooperatives. Year to date revenues, which includes ancillary revenues from the 10 MW battery energy storage facility, and operating income were registered at P19,725 million and P4,616 million, respectively.

2018 vs. 2017

a. **SMEC, Sual Power Plant**

Year-to-date net generation of 4,819 GWh, at 73% net capacity factor rate, was 8% higher than previous year due to lower outage hours attributable to the installation of main transformer for Sual Unit 2 and annual maintenance shutdown of Sual Unit 1. In 2017, Sual Unit 2 was on a prolonged shutdown due to the generator transformer failure which was replaced in 2018. Total offtake volume slightly increased to 6,505 GWh this year from 6,484 GWh previous year due to higher spot sales.

Revenues of P32,101 million was 5% higher than previous year driven by higher average selling prices due to higher indices (NewCastle index, Forex rates, US & Philippine Consumer Price index).

Operating income of P8,673 million was 7% lower than previous year's P9,313 million owing to the decline in volume sold to Meralco as a result of the annual maintenance shutdown of Unit 1 during the period.

b. **SPPC, Ilijan Power Plant**

Net generation of Ilijan Power Plant in 2018 of 5,785 GWh declined by 5% while total offtake volume of 5,884 GWh decreased by 4% compared to the same period in 2017. The decrease was mainly attributable to longer combined outage hours experienced in 2018 while in 2017 the power plant was in scheduled maintenance shutdown from January 28 to February 16, 2017 to coincide with the Malampaya natural gas facility restriction.

Revenues of P26,982 million for the period ended September 30, 2018 was 4% higher than 2017, despite the lower offtake volume during the period, due to the increase in average selling prices (on account of higher average pass-through gas prices and forex rates in 2018) for bilateral volumes and the increase in average spot sales price. Consequently, operating income of P7,762 million in 2018 was 7% higher than the P7,240 million posted in 2017.

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

San Roque Power Plant's utilization in 2018, at 36% net capacity factor rate, increased compared to previous year due to high water elevation with an average of 259 masl. In 2018, the power plant was tagged as a Must Run Unit resulting from persistent storms and rainfalls for the months of August and September. Accordingly, net generation and offtake volume in 2018 increased by 52% and 33%, respectively, from previous year.

Revenues of P5,315 million for the period ended September 30, 2018 increased by 2%, due to higher offtake volume which more than offset the decline in the average spot sales price.

As a result, SPDC's operating income for the period declined by 7% from P2,297 million in 2017 to P2,130 million in 2018.

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

Combined net generation of the Limay Greenfield Power Plant Units 1, 2 and 3 registered at 1,824 GWh for the nine months ended September 30, 2018, of which 1,292 GWh was dispatched to its power generation customers while the rest was dispatched to its RES customers. On the other hand, total offtake volume of 1,364 GWh was sold to bilateral customers, spot market and as replacement power to SMEC.

For the first three quarters of 2018, revenues and operating income from SCPC's power generation business reached P6,285 million and P1,049 million, respectively.

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

For the nine months ended September 30, 2018 and 2017, total net generation of the Davao Greenfield Power Plant Units 1 and 2 registered at 1,020 GWh and 124 MWh, respectively, While total offtake volume sold to electric cooperatives and contestable customers increased from 128 GWh in 2017 to 1,029 GWh in 2018.

Revenues and operating income climbed to P5,480 million and P1,947 million, respectively, for the first three quarters of 2018.

f. **MPPCL, Masinloc Power Plant**

Following the acquisition of MPPCL on March 20, 2018, the Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 617 MW, have contributed a total net generation of 2,197 GWh from the period March 20 to September 30, 2018.

Total offtake volume of 2,718 GWh was sold to electric cooperatives and contestable customers. Year to date revenues and operating income registered at P13,180 million and P3,232 million, respectively.

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

2019 vs. 2018

a. **SMELC, RES**

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

Offtake volume of 1,578 GWh for the first three quarters of 2019 exceeded last year's 1,448 GWh. The 9% increase was attributable to the following: (i) higher electricity requirements of existing customers, and (ii) additional 9 contestable customers contracted in 2019. The average realization price, however, was lower due to downward adjustments in the rates based on current indices. This mainly led to the 6% decrease in revenues for 2019 which registered at P8,278 million.

As a result, operating income for the nine months ended September 30, 2019 registered at P58 million, a decline of 14% from the P68 million for the same period last year.

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

Revenues of P2,779 was 19% higher than last year's P2,342 million primarily driven by higher offtake volume and partly offset by lower average selling price due to the decline in pass-through generation costs.

On the other hand, operating loss of P250 million in 2019 was higher compared to the P62 million loss recognized in 2018 for the same period on account of increase in the cost of power purchases.

c. **SCPC, RES**

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

For the first three quarters of 2019, total offtake volume registered at 1,228 GWh. This was 129% higher than last year's 536 GWh due to higher bilateral sales from additional contestable customers. Revenues, likewise, more than doubled from P2,824 million last year to P6,176 million as offtake volume increased.

d. **MPPCL, RES**

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

For the nine months ended September 30, 2019, total offtake volume registered at 91 GWh versus 24 GWh covering the period from March 20, 2018 to September 30 2018. Revenues and operating income for the nine months ended September 30, 2019 amounted to P435 million and P194 million, respectively versus P152 million and P67 million, respectively, for the period from March 20, 2018 to September 30, 2018.

2018 vs. 2017

a. **SMELC, RES**

Offtake volume of 1,448 GWh for the first nine months of 2018 almost doubled compared to previous year's 816 GWh. The increase was attributable to the following: (i) higher electricity requirements of existing customers, and (ii) additional 29 contestable customers contracted in 2018. This led to the 59% increase in revenues in 2018 which registered at P8,782 million.

Higher volume and improved margin, to cover costs and operating expenses, allowed SMELC to post an operating income amounting to P68 million for the first nine months of 2018, an improvement from the P27 million posted in 2017.

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

Revenues of P2,342 million was 17% higher than previous year's P2,001 million primarily driven by higher offtake volume and increase in average selling price due to higher passed-through generation costs.

Consequently, operating loss of P62 million for the first nine months of 2018 was 56% lower compared to the P142 million recognized in 2017 for the same period.

c. **SCPC, RES**

For the nine months ended September 30, 2018, total offtake volume registered at 536 GWh while revenues and operating income amounted to P2,824 million and P968 million, respectively.

III. FINANCIAL POSITION

2019 vs. 2018

The Group's consolidated total assets as of September 30, 2019 amounted to P545,433 million, higher by 10% or P51,583 million than December 31, 2018 balance of P493,850 million. The increase is attributable to the following factors:

a. Higher cash and cash equivalents was due mainly to (i) the proceeds from the P30,000 million fixed-rate Peso Bonds, US$500 million and US$300 million SPCS (P41,050 million, net of transaction costs) issued by SMC Global Power in April and July 2019, respectively, (ii) additional loans drawn by MPPCL (US$35 million or P1,824 million) and by SMCPC (P978 million), and offset in part by (iii) additional advances to contractors for the Mariveles power plant and battery energy storage projects (P8,204 million), (iv) payments of long-term debts by SMC Global Power, MPPCL, SMCPC and SCPC (P10,703 million) and (v) full settlement of short-term loan of SMC Global Power (P6,257 million).

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

c. Increase in other noncurrent assets was due mainly to: (i) the consolidation of MPGC's advances to contractors (P6,396 million) when SMC Global Power obtained a 90% controlling interest in MPGC through the subscription of the latter's common shares in 2019 and (ii) additional advances to contractors for the battery energy storage projects (P1,808 million).

The Group's consolidated total liabilities as of September 30, 2019 amounted to P400,859 million, 0.7% or P2,766 million slightly higher than the December 31, 2018 balance of P398,093 million. The major items accounting for the increase are as follows:

a. Higher long-term debt due to issuance by SMC Global Power of P30,000 million fixed-rate Peso Bonds in April 2019, additional loan drawn by MPPCL and SMCPC from their credit facilities amounting to US$35 million (P1,824 million) in January 2019 and P978 million in July 2019, respectively, net of partial settlements by SMC Global Power, SMCPC and SCPC and MPPCL of its long-term borrowings (P10,703 million).

b. Full settlement of the US$120 million (P6,257 million) short-term loan of SMC Global Power using in part the proceeds of the P30,000 million fixed rate Peso Bonds.

c. Increase in deferred tax liabilities was mainly attributable to higher provision for deferred income tax expense recognized by the IPPA entities on the temporary difference arising from foreign exchange translation of the US dollar-denominated finance lease liabilities.

d. Lower lease liabilities was due to payments made by the IPPA entities (P15,566 million) and offset by the additional liabilities recognized for the lease of land by SMCPC and SCPC as a result of the adoption of PFRS 16 (P1,390 million).

2018 vs. 2017

The Group's consolidated total assets as of September 30, 2018 amounted to P501,379 million, higher by 43% or P151,206 million than December 31, 2017 balance of P350,173 million. The increase is attributable to the following factors:

a. Higher cash balance from the remaining proceeds of the US$1,350 million (P70,106 million) long-term borrowings availed and US$650 million (P32,752 million, net of transaction costs) Redeemable Perpetual Securities ("RPS") issued by SMC Global Power on March 16, 2018 to finance the Masinloc acquisition, for a total consideration of US$1,900 million (equivalent to P98,990 million) on March 20, 2018, and from the P20,322 million term loan drawn by SMCPC which was used to pre-settle its short-term loans and pay its financing costs and shareholder advances.

b. Consolidation of the assets of the Masinloc Group resulting from the acquisition, totaling to P77,486 million, largely comprising of the Masinloc Power Plant and related facilities (P66,696 million), trade and other receivables (P2,428 million), inventories (P1,999 million), prepaid expenses and other current assets (P1,266 million) and other noncurrent assets (P1,429 million).

c. Provisional goodwill amounting to P69,944 million recognized on the business combination arising from the aforesaid acquisition.

d. Higher trade receivables of SMEC, SPPC, SPDC, SMELC and SMCPC by P4,110 million.

The Group's consolidated total liabilities as of September 30, 2018 amounted to P407,560 million, 40% or P117,153 million higher than the December 31, 2017 balance of P290,407 million. The major items accounting for the increase are as follows:

a. Increase in long-term debts and other noncurrent liabilities due to the (i) various long-term borrowings availed by SMC Global Power totaling to US$1,350 million (P70,106 million) which was used to finance the Masinloc acquisition, (ii) loan availment of SMCPC amounting to P20,322 million from its OLSA to refinance its short-term loan of P5,930 million and partially pay its shareholder advances of P13,561 million, (iii) issuance of P15,000 million fixed rate bonds by SMC Global Power to fully pay the US$150 million (P8,014 million) shareholder advances and a portion of its US$500 million term loan (US$220 million, equivalent to P11,966 million – also funded in part by the P13,561 million received from SMCPC), (iv) additional P2,000 million loan drawn by SCPC, from its P44,000 million credit facility, to fund the Limay Phase II capital expenditures, and partly offset by (v) payment of finance lease liabilities by SMEC, SPPC and SPDC (P6,193 million).

b. Consolidation of the liabilities of the Masinloc Group, totaling to P44,278 million, consisting of: short and long-term debts (P37,811 million), trade and other current payables (P6,217 million), and other noncurrent liabilities (P250 million).

Equity

The increase in equity is due to:

(in Millions)	**September 30**	
	2019	2018
Issuance of SPCS	**P41,050**	P -
Net income attributable to equity holders of the Parent Company	**11,395**	4,348
Non-controlling interest	**996**	-
Distributions paid to RPS holder	**(1,584)**	(1,080)
Distributions paid to USCS holders	**(2,353)**	(2,345)
Issuance of RPS	**-**	32,752
Others	**(688)**	378
	P48,816	P34,053

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(in Millions)	**September 30**	
	2019	2018
Net cash flows provided by operating activities	**P23,750**	P12,177
Net cash flows used in investing activities	**(16,337)**	(100,750)
Net cash flows provided by financing activities	**38,329**	93,272

The effect of exchange rate changes on cash and cash equivalents amounted to P194 million and P761 million for the periods ended September 30, 2019 and 2018, respectively.

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

Net cash flows used in investing activities included the following:

(in Millions)	September 30	
	2019	2018
Proceeds from sale of transportation equipment	**P2**	P -
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**-**	(97,334)
Acquisition of non-controlling interest	**-**	(532)
Additions to deferred exploration and development costs	**(4)**	(3)
Additions to intangible assets	**(97)**	(92)
Additions to investments and advances	**(131)**	(458)
Additions to property, plant and equipment	**(5,146)**	(4,510)
Decrease (increase) in other noncurrent assets	**(10,961)**	2,179

Net cash flows provided by financing activities included the following:

(in Millions)	September 30	
	2019	2018
Proceeds from long-term debts	**P32,802**	P102,879
Proceeds from issuance of SPCS	**41,050**	-
Proceeds from short-term borrowings	**4,622**	35,580
Proceeds from issuance of RPS	**-**	32,752
Cash dividends paid to previous holder of non-controlling interest	**-**	(4)
Payment of stock issuance costs	**(225)**	-
Distributions paid to RPS holder	**(1,584)**	(1,080)
Distributions paid to USCS holders	**(2,353)**	(2,345)
Payments of long-term debts	**(10,703)**	(13,779)
Payments of short-term borrowings	**(10,879)**	(41,510)
Payments of lease liabilities	**(14,401)**	(19,221)

V. KEY PERFORMANCE INDICATORS

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

LIQUIDITY RATIO

Current Ratio = **Current Assets** / **Current Liabilities**

	Conventional		*Adjusted*[1]	
(in Millions P)	**September 2019**	December 2018	**September 2019**	December 2018
(A) Current Assets	**132,948**	88,615	**132,948**	88,615
(B) Current Liabilities	**60,005**	64,696	**37,700**	45,105
Current Ratio (A) / (B)	**2.22**	1.37	**3.53**	1.96

(1) Current portion of finance lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on finance lease are pass-through charges billable to customers. As of September 30, 2019 and December 31, 2018, current portion of finance lease liabilities amounted to P22,305 million and P19,591 million, respectively.

SOLVENCY RATIO

Net Debt-to-Equity* Ratio = **Net Debt** / **Total Equity**

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	**September 2019**	December 2018
(A) Net Debt[2]	**227,053**	269,349
(B) Total Equity[3]	**141,879**	96,217
Net Debt-to-Equity Ratio (A) / (B)	**1.60**	2.80

(2) Consolidated net total debt plus total PSALM finance lease liabilities.
(3) Consolidated total equity
**All items are net of amounts attributable to ring-fenced subsidiaries*

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

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

(in Millions P)	*Conventional* September 2019	*Conventional* December 2018	*Adjusted*[4] September 2019	*Adjusted*[4] December 2018
(A) Total Assets	**545,433**	493,850	**381,936**	326,463
(B) Total Equity	**144,574**	95,758	**144,574**	95,758
Asset-to-Equity Ratio (A) / (B)	**3.77**	5.16	**2.64**	3.41

(4) Net carrying amounts of the IPPA power plants, in relation to the IPPA Agreements with PSALM were omitted in total assets as these power plant assets were capitalized with corresponding finance lease liabilities. As of September 30, 2019 and December 31, 2018, net carrying amount of IPPA power plant assets amounted to P163,497 million and P167,387 million, respectively.

PROFITABILTY RATIO

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

(in Millions P)	**September 2019**	December 2018
(A) Net Income[5]	**15,319**	8,300
(B) Total Equity	**144,574**	95,758
Return on Equity (A) / (B)	**10.6%**	8.7%

(5) Annualized for quarterly reporting.

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

Per relevant Loan Covenants of SMC Global Power

(in Millions P)	**September 2019**	December 2018
(A) EBITDA[(6)]	**37,592**	36,432
(B) Interest Expense[(7)]	**15,751**	14,472
Interest Coverage Ratio (A) / (B)	**2.39**	2.52

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

OPERATING EFFICIENCY

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

	Periods Ended September 30	
(in GWh)	**2019**	2018
(A) Current Period Offtake Volume	**21,581**	17,670
(B) Prior Period Offtake Volume	**17,670**	12,818
Volume Growth (Decline) [(A / B) – 1]	**22.1%**	37.9%

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

	Periods Ended September 30	
(in Millions P)	**2019**	2018
(A) Current Period Revenue	**105,142**	89,111
(B) Prior Period Revenue	**89,111**	62,117
Revenue Growth (Decline) [(A / B) – 1]	**18.0%**	43.5%

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

	Periods Ended September 30	
(in Millions P)	**2019**	2018
(A) Income from Operating Activities	**29,974**	25,753
(B) Revenues	**105,142**	89,111
Operating Margin (A) / (B)	**28.5%**	28.9%