SMC Global Power Holdings Corp.
155 EDSA, Wack-Wack, Mandaluyong City, Philippines

₱15,000,000,000.00 Fixed Rate Bonds consisting of

Series A Bonds: 4.3458% p.a. Due 2021,

Series B Bonds: 4.7575% p.a. Due 2023

and

Series C Bonds: 5.1792% p.a. Due 2026

Offer Price: 100% of Face Value

to be listed in the Philippine Dealing & Exchange Corp. ("PDEx")

Joint Issue Managers, Joint Lead Underwriters and Bookrunners[1]

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

The date of this Prospectus is June 23, 2016

[1] The short term loan used to redeem the U.S.$300 million 7.0% Notes Due 2016 of the Corporation from BDO Unibank, Inc., the parent company of BDO Capital and Investment Corporation, will be fully repaid from the net proceeds of the Offer.

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

This Prospectus relates to the offer and sale (the "**Offer**") of fixed rate bonds (the "**Bonds**") with an aggregate principal amount of ₱15,000,000,000 of SMC Global Power Holdings Corp. (the "**Company**", the "**Issuer**" or "**SMC Global Power**") to be listed and traded in the Philippine Dealing & Exchange Corp. ("**PDEx**"). The Bonds will be issued on July 11, 2016 (the "**Issue Date**") and will be comprised of the Series A Bonds, the Series B Bonds, and the Series C Bonds. While the Issuer has the discretion to allocate the principal amount among the Series A Bonds, Series B Bonds and Series C Bonds based on the bookbuilding process, the Issuer may opt not to allocate any of the principal amount to any of these series.

The Series A Bonds shall have a term of five (5) years from the Issue Date, with a fixed interest rate equivalent to 4.3458% per annum. The Series B Bonds shall have a term of seven (7) years from the Issue Date, with a fixed interest rate equivalent to 4.7575% per annum. The Series C Bonds shall have a term of ten (10) years from the Issue Date, with a fixed interest equivalent to 5.1792% per annum. Interest on the Bonds shall be payable quarterly in arrears starting on October 11, 2016 for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter, for as long as the Bonds remain outstanding or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day. For a more detailed discussion on the interest payments due on the Bonds, see "Description of the Bonds" – "Interest" of this Prospectus.

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the relevant Maturity Date, the Bonds will be redeemed at par or 100% of the face value thereof on the relevant Maturity Date. For a more detailed discussion on the redemption of the Bonds, see "Description of the Bonds" – "Redemption and Purchase" of this Prospectus.

Upon issuance, the Bonds shall constitute direct, unconditional, unsubordinated, and unsecured obligations of the Company and shall at all times rank *pari passu* and without preference among themselves and among any present and future unsubordinated and unsecured obligations of the Company, except for any statutory preference or priority established under Philippine law. The Bonds will effectively be subordinated in right of payment to all of the secured debts of the Company to the extent of the value of the assets securing such debt and all of its debts evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines. For a more detailed discussion on the ranking of the Bonds, see "Description of the Bonds" – "Ranking" of this Prospectus.

The Bonds have been rated PRS Aaa by the Philippine Rating Services Corporation ("**PhilRatings**") on May 13, 2016. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned.

The Bonds are offered to the public at face value through BDO Capital & Investment Corporation ("**BDO Capital**"), BPI Capital Corporation ("**BPI Capital**"), China Bank Capital Corporation ("**China Bank Capital**"), Maybank ATR Kim Eng Capital Partners, Inc. ("**MATRKE**"), PNB Capital and Investment Corporation ("**PNB Capital**"), RCBC Capital Corporation ("**RCBC Capital**"), SB Capital Investment Corporation ("**SB Capital**"), Standard Chartered Bank ("**SCB**") and United Coconut Planters Bank ("**UCPB**"), collectively the "**Joint Issue Managers, Joint Lead Underwriters and Bookrunners**." The Philippine Depository & Trust Corporation ("**PDTC**" or "**Registrar and Paying Agent**") will act as the Registrar of the Bonds. PDTC has no interest or relation to the Company which may conflict with the performance of its function as Registrar of the Bonds.

The Bonds will be issued in scripless form, with PDTC maintaining the electronic records of the Registrar bearing the official information on the names and addresses of the Bondholders and the number of Bonds they respectively hold, including all transfers of the Bonds and the names of subsequent transferee Bondholders (the "**Register of Bondholders**"). The Bonds shall be issued in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter. The Bonds shall be traded in denominations of ₱10,000.00 in the secondary market.

The Company expects to raise gross proceeds amounting up to ₱15,000,000,000.00 and the net proceeds are estimated to be at least ₱14,828,543,589 after deducting fees, commissions and expenses relating to the issuance of the Bonds. The net proceeds of the Offer shall be used primarily by the Company to refinance the U.S.$300 million short term loan extended by BDO Unibank, Inc. ("**BDO**") and for general corporate purposes. The Issuer shall source the U.S. dollars to pay said short term loan from internally available funds. For a more detailed discussion on the use of proceeds, see "Use of Proceeds" of this Prospectus.

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

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

Each of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners will receive a fee from the Company of 0.50% based on their respective underwriting commitments, which shall be grossed up for gross receipts tax of 7%. For a more detailed discussion on the fees to be received by the Joint Issue Managers, Joint Lead Underwriters and Bookrunners, see "Plan of Distribution" of this Prospectus.

BDO Capital is a wholly-owned subsidiary of BDO which will receive full payment out of the proceeds of the Offer as the lender under the short term loan. For a more detailed discussion on the use of proceeds, see "Use of Proceeds" of this Prospectus.

On April 18, 2016, the Company filed a registration statement with the Securities and Exchange Commission of the Philippines ("**SEC**"), in accordance with the Securities Regulation Code ("**SRC**") for the registration of the Bonds.

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

The Joint Issue Managers, Joint Lead Underwriters and Bookrunners confirm that they have exercised the required due diligence in verifying that all material information in this Prospectus is true and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading. The Joint Issue Managers, Joint Lead Underwriters and Bookrunners assume no liability for any information supplied by the Company in relation to this Prospectus.

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

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

No person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any of the securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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

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

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

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

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

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

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

The Company's fiscal year begins on January 1 and ends on December 31 of the year. R.G. Manabat & Co., a member firm of KPMG ("**R.G. Manabat & Co.**"), the Company's external auditor, has audited and rendered an unqualified audit reports on the Company's financial statements as of and for the years ended December 31, 2013, 2014 and 2015.

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

This Prospectus includes forward-looking statements. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. Words including, but not limited to, "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar words are intended to identify forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward looking events and circumstances discussed in this Prospectus might not occur. The actual results of the Company could differ substantially from those anticipated in the forward-looking statements of the Company.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT.

SMC GLOBAL POWER HOLDINGS CORP.

By:

Alan T. Ortiz
President and Chief Operating Officer

SUBSCRIBED AND SWORN to before me this JUN 2 3 2016, affiant exhibiting to me his Passport No. EC3465734 issued on February 16, 2015 at Manila, Philippines.

Doc. No. : 83;
Page No. : 18;
Book No. : I;
Series of 2016.

JULIE ANN B. DOMINO-PABLO
APPOINTMENT NO. 0470-16
Notary Public for Mandaluyong City
Until December 31, 2017
No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City
Roll No. 57163
PTR No. 2484254; 1/28/16; Mandaluyong City
IBP Lifetime Member No. 012880; 6/17/14; Quezon City Chapter

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

The Company reserves the right to withdraw the offer and sale of the Bonds at any time, and the Joint Issue Managers, Joint Lead Underwriters and Bookrunners reserve the right to reject any commitment to subscribe for the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. If the Offer is withdrawn or discontinued, the Company shall subsequently notify the SEC and the PDEx.

Conventions which apply to this Prospectus

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

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

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DEFINITION OF TERMS

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

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

Bondholder	A Person whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders.
Bonds	The Philippine Peso denominated fixed rate bonds with terms of five, seven and ten years to be issued by the Issuer with an aggregate principal amount of [₱15,000,000,000.00] consisting of Series A Bonds, Series B Bonds and Series C Bonds, which the Joint Issue Managers, Joint Lead Underwriters and Bookrunners have agreed to distribute on the Issue Date, and underwrite on a firm commitment basis, with features set out in the Terms and Conditions.
BOT	Build-Operate-Transfer.
BSP	Bangko Sentral ng Pilipinas.
Business Day	means a day, other than Saturday, Sunday or legal holiday, on which the facilities of the Philippine banking system are open and available for clearing, and banks are open for business in Metro Manila, Philippines.
Captive Market	A market of end-users who do not have a choice of their supplier of electricity.
CFB	Circulating fluidized bed.
Clean Air Act	The Philippine Clean Air Act of 1999.
Clean Water Act	The Philippine Clean Water Act of 2004.
COC	Coal operating contract.
COD	Commercial Operations Date.
Company, Issuer, or SMC Global Power	SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries.
Contestable Customers	End-users who have a choice on their supplier of electricity as may be certified by the ERC.
Contestable Market	A market of end-users who have a choice on their supplier of electricity.
Daguma Agro	Daguma Agro Minerals, Inc.
Davao Greenfield Power Plant	The 2 x 150 MW Davao coal-fired power plant.
DENR	Department of Environment and Natural Resources.
Distribution Code	The Philippine Distribution Code.
DOC	ASEAN-China Declaration on the Conduct of Parties in the South China Sea.

DOE	Department of Energy of the Philippines.
DOJ	Department of Justice of the Philippines.
DOLE	Department of Labor and Employment.
DU	Distribution Utility.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
EC	Electric Cooperatives.
ECA	Energy conversion agreement.
ECC	Environmental Compliance Certificate.
EIS	Environmental Impact Statement.
EMB	Environmental Management Bureau.
EMF	Environmental Monitoring Fund.
EMP	Environmental Management Plan.
EPIRA	Philippine Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001.
EPC	Engineering, Procurement and Construction.
ERC	Energy Regulatory Commission of the Philippines.
ER Claim	Equivalent relief claim.
ERC Order	The order dated March 3, 2014 issued by the ERC which voided the WESM prices for the November and December 2013 billing months and imposed recalculated prices to be calculated by PEMC.
FIA	Foreign Investment Act of 1991 of the Philippines.
GDP	Gross domestic product.
Government	The Government of the Philippines.
Grid Code	Philippine Grid Code.
GWh	Gigawatt hours, a unit of electrical energy equivalent to 1,000 MWh.
Ilijan ECA	The ECA under which NPC is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant.

Ilijan IPPA Agreement	The IPPA agreement dated May 11, 2010 between PSALM and SPPC with the conformity of the NPC relative to the administration of the IPP contract of NPC for the Ilijan Power Plant.
Ilijan Power Plant	Natural gas fired combined cycle power plant with contracted capacity of 1,200 MW located in Ilijan, Batangas.
IMEM	Interim Mindanao Electricity Market.
Installed Capacity	Gross maximum dependable capacity of a power plant, expressed in MW, i.e., the maximum amount of power that can be generated by the power plant.
IPP	Independent Power Producer.
IPPA	Independent Power Producer Administrator.
IPPA Agreement	Independent Power Producer Administration Agreement.
IPPA Power Plants	The Sual Power Plant, the San Roque Power Plant and the Ilijan Power Plant.
IRR	Implementing Rules and Regulations of EPIRA promulgated on February 27, 2002.
ISO	International Organization for Standardization.
Issue Date	July 11, 2016 or such date on which the Bonds shall be issued by SMC Global Power to the Bondholders.
ITH	Income Tax Holiday.
Joint Issue Managers, Joint Lead Underwriters and Bookrunners	BDO Capital, BPI Capital, China Bank Capital, MATRKE, PNB Capital, RCBC Capital, SB Capital, SCB and UCPB.
K-Water	Korea Water Resource Corporation.
Kcal	Kilo-Calorie, a unit of heat energy.
KEILCO	KEPCO Ilijan Corporation, owner of the Ilijan Power Plant, which is a joint venture of KEPCO, Mitsubishi Corporation and TeaM Energy.
KEPCO	Korea Electric Power Corporation.
KJ	Kilo-Joule, a unit of heat energy.
KPC	Kaltim Prima Coal.
kV	Kilo-Volts, a unit of voltage equivalent to 1,000 volts.

KW	Kilowatt, a unit of electrical power equivalent to 1,000 watts.
KWh	Kilowatt hours, a unit of electrical energy equivalent to 1,000 watt hours.
LGC	Philippine Republic Act No. 7160, or the Local Government Code.
LGU	Local Government Unit.
LHV	Lower heating value of fuel.
Limay Combined Cycle Plant	The combined cycle power plant with installed capacity at 620 MW located in Limay, Bataan which was owned by Panasia Energy.
Limay Greenfield Power Plant	The 2 x 150 MW Limay coal-fired power plant.
Limay Cogeneration Plant	The 140 MW Limay cogeneration power plant.
Luzon grid	An interconnected network of transmission lines running through Luzon for delivering electricity.
Main Unit	One of the four 50 MW capacity main hydroelectric generators of AHEPP.
Maturity Dates	For the Series A Bonds, July 11, 2021, which is five (5) years from Issue Date, for the Series B Bonds, July 11, 2023, which is seven (7) years from Issue Date and for the Series C Bonds, July 11, 2026, which is ten (10) years from the Issue Date; provided that, in the event that any of the Maturity Dates falls on a day that is not a Business Day, the Maturity Date shall be automatically extended to the immediately succeeding Business Day.
Meralco	Manila Electric Company.
MILF	Moro Islamic Liberation Front.
Mindanao grid	An interconnected network of transmission lines running through Mindanao for delivering electricity.
MNLF	Moro National Liberation Front.
Must Pay Volume	The monthly generation payments SMC Global Power "must pay" for electricity sold up to a given volume.
MW	Megawatt, a unit of electrical power equivalent to 1,000 kilowatts.
MWh	Megawatt hours, a unit of electrical energy equivalent to 1,000 kilowatt hours.
MWSS	Metropolitan Waterworks and Sewerage System.

NEA	National Electrification Administration of the Philippines.
Negative List	Tenth Regular Foreign Investment Negative List issued by the Office of the President of the Philippines on May 29, 2015.
Net Capacity Factor	Ratio, in percent, equal to (1) actual electricity generated by a power plant in a period (net of electricity utilized to drive power plant service or auxiliaries), divided by (2)(a) number of hours in the period multiplied by (b) the contracted capacity of such power plant.
Net Dependable Capacity	Gross dependable capacity of a power plant (which may be less than Installed Capacity at any given time if technical problems are present) less the power plant capacity utilized to drive power plant station service or auxiliaries, expressed in MW.
Net Heat Rate	Heat energy required by a power plant to produce one KWh of electrical energy net of the parasitic or auxiliary loads of the power plant, usually expressed in terms of British Thermal Units/KWh, Kcal/KWh or KJ/KWh.
NGCP	National Grid Corporation of the Philippines, the system operator of the transmission grid.
NIA	National Irrigation Administration.
NPC	National Power Corporation of the Philippines.
NWRB	National Water Resources Board.
OEDC	Olongapo Electricity Distribution Company, Inc.
Offer	The issuance of Bonds by the Issuer under the conditions as herein contained.
Offer Period	The period, commencing from 9:00 AM of June 27, 2016 to 12:00 NN of July 1, 2016, during which the Bonds shall be offered to the public.
Open Access	System of allowing qualified persons to use the transmission and/or distribution systems and associated facilities of distribution utilities subject to the payment of transmission and/or distribution wheeling rates approved by the ERC.
Panasia Energy	Panasia Energy Holdings Inc.
Payment Date	Each date on which payment for interest, principal, and all other payments due on the Bonds become due.
PBR	Performance Based Regulation.

PDEx	The Philippine Dealing & Exchange Corp.
PDTC or Registrar and Paying Agent or Registrar of the Bonds	The Philippine Depository & Trust Corporation, the central depository and clearing agency of the Philippines which provides the infrastructure for handling the lodgment of the scripless Bonds and the electronic book-entry transfers of the lodged Bonds in accordance with the PDTC Rules, and its successor-in-interest.
PDTC Rules	The SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented, or modified from time to time.
PEMC	Philippine Electricity Market Corporation.
PFRS	Philippine Financial Reporting Standards.
Philippine peso or PhP or Pesos or ₱	The legal currency of the Republic of the Philippines.
Philippines	Republic of the Philippines.
PhilRatings	Philippine Rating Services Corporation.
PPA	Power purchase agreement.
PSA	Power supply agreement.
PSE	Philippine Stock Exchange, Inc.
PSALM	Power Sector Assets and Liabilities Management Corporation.
PSALM ER Claim	The ER Claim included in PSALM's claims against TeaM Energy.
PSC	Power supply contract.
PVEI	PowerOne Ventures Energy Inc.
RCOA	Retail Competition and Open Access.
RE Act	Renewable Energy Act of 2008 (Republic Act No. 9513).
Register of Bondholders	The electronic records of the Registrar bearing the official information on the names and addresses of the Bondholders and the amount of Bonds they respectively hold, including all transfers and assignments or any Liens or encumbrances thereon and the names of subsequent transferee Bondholders.
Reliability Factor	Ratio, in percent, equal to (1)(a) the number of hours

	in a period less (b) the average unplanned outage hours in that period divided by (2) the number of hours in that period.
RES	Retail Electricity Supplier.
R.G. Manabat & Co.	R.G. Manabat & Co., a member firm of KPMG.
RMP-2	Refinery Master Plan 2.
RPAA	Registry and Paying Agency Agreement.
RSCs	Retail supply contracts.
RTGS	The Philippine Payment Settlement System via Real Time Gross Settlement.
SAF	Special Action Force of the Philippine National Police.
Sanitation Code	The Code on Sanitation of the Philippines.
San Roque IPPA Agreement	The IPPA Agreement dated December 29, 2009 between PSALM and SPDC with the conformity of NPC relative to the administration of the IPP contract of NPC for the San Roque Power Plant.
San Roque Power Plant	Hydroelectric multipurpose power plant with contracted capacity of 345 MW located in San Manuel, Pangasinan.
San Roque PPA	The PPA made between SPDC and NPC dated October 11, 1997 in relation to the San Roque Power Plant.
SEC	The Securities and Exchange Commission of the Philippines.
Series A Bonds	Bonds to be issued by the Issuer having a term beginning on the Issue Date and ending five (5) years from Issue Date or on July 11, 2021 with a fixed Interest Rate equivalent to 4.3458% per annum.
Series B Bonds	Bonds to be issued by the Issuer having a term beginning on the Issue Date and ending seven (7) years from Issue Date or on July 11, 2023 with a fixed Interest Rate equivalent to 4.7575% per annum.
Series C Bonds	Bonds to be issued by the Issuer having a term beginning on the Issue Date and ending ten (10) years from Issue Date or on July 11, 2026 with a fixed Interest Rate equivalent to 5.1792% per annum.
SMEC	San Miguel Energy Corporation.
SMELC	San Miguel Electric Corp.
SPDC	Strategic Power Devt. Corp.

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

or about June 23, 2016 between the Issuer and the Joint Issue Managers, Joint Lead Underwriters and Bookrunners, as may be amended or supplemented from time to time.

Unplanned Outage . . . . A shutdown of the plant for reasons other than planned outage. For purposes of calculating measures of power plant performance that are reported by the IPPs such as availability and reliability factors, shutdown due to (1) faults or failures in the transmission system, (2) force majeure events, (3) disruptions in fuel supply and (4) dispatch orders from the grid system operators are not included in unplanned outage.

Visayas grid . . . . An interconnected network of transmission lines running through Visayas for delivering electricity.

WESM . . . . Wholesale electricity spot market.

EXECUTIVE SUMMARY

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

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

BUSINESS

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 2,903 megawatts ("**MW**") of combined capacity as of December 31, 2015 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities in the Energy Regulatory Commission of the Philippines ("**ERC**") Resolution No. 03, Series of 2015, SMC Global Power, through its Independent Power Producer Administrator ("**IPPA**") and Independent Power Producer ("**IPP**") subsidiaries, had a 17% market share of the power supply of the national grid, and a 22% market share of the Luzon grid, in each case as of December 31, 2015.[2] SMC Global Power entered the power industry in 2009 following the acquisition of IPPA rights in privatization auctions conducted by the Government. Under the IPPA business model, SMC Global Power, through its subsidiaries San Miguel Energy Corporation ("**SMEC**"), Strategic Power Devt. Corp. ("**SPDC**"), and South Premiere Power Corp. ("**SPPC**"), gained the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Wholesale Electricity Spot Market ("**WESM**").

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

In September 2013, SMC Global Power through SMC PowerGen, Inc. ("**SPI**") acquired 100% of the 140 MW Limay Cogeneration Power Plant (the "**Limay Cogeneration Plant**") from Petron Corporation. In November 2014, SMC Global Power through its subsidiary, PowerOne Ventures Energy Inc. ("**PVEI**") acquired a 60% stake in Angat Hydropower Corporation ("**AHC**"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant ("**AHEPP**"). As at December 31, 2015, the total capacity of the subsidiaries of SMC Global Power is 2,903 MW including the entire capacity of the AHEPP.

SMC Global Power, through SMEC, SPDC, SPPC, AHC and SPI, sells power through offtake agreements directly to customers, including Manila Electric Company ("**Meralco**") and other

[2] Market share is computed by dividing the total capacity of the Company (2,903,000 KW) with the installed generating capacity of Luzon grid or National grid (13,057,758 KW and 17,585,167 KW, respectively) from ERC Resolution No. 3 Series of 2015.

distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term Take-or-pay offtake contracts which have provisions for passing on fuel costs and certain other fixed costs.

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

During the years ended December 31, 2013, 2014 and 2015, respectively, SMC Global Power through its subsidiaries sold 13,316 Gigawatt hours ("**GWh**"), 14,891 GWh, and 14,714 GWh of power pursuant to offtake agreements and 2,847 GWh, 2,110 GWh, and 1,844 GWh of power through the WESM. In contrast, during the years ended December 31, 2013, 2014 and 2015, respectively, SMC Global Power through its subsidiaries purchased 517 GWh, 477 GWh, and 690 GWh of power from the WESM.

For the year ended December 31, 2015, the total consolidated revenue, net income and earnings before interest, taxes, depreciation and amortization ("**EBITDA**") of SMC Global Power were ₱77.5 billion, ₱1.8 billion and ₱5.5 billion, respectively, while as of December 31, 2015, SMC Global Power had total consolidated assets of ₱331.2 billion.

The experience of SMC Global Power, through its subsidiaries, in acting as an IPPA and its ownership of the Limay Cogeneration Plant and the AHEPP have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it has a strong platform to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity. SMC Global Power, as the project sponsor, initiated two greenfield power projects in July 2013 and October 2013 with the construction of the 2 x 150 MW Davao coal-fired power plant (the "**Davao Greenfield Power Plant**") and the 4 x 150 MW Limay coal-fired power plant (the "**Limay Greenfield Power Plant**"), respectively. SMC Global Power, through Mariveles Power Generation Corporation, will also construct an additional greenfield coal-fired power project in Mariveles, Bataan with an initial capacity of 4 x 150 MW. SMC Global Power is considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand. With the increased development of greenfield power projects from 2016 onwards, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and Company-operated IPPs. In order to continue its strategic acquisitions of existing power generation capacity, SMC Global Power intends to participate in the bidding of selected National Power Corporation of the Philippines ("**NPC**")-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework. SMC Global Power also intends to pursue vertical integration of its power business by expanding into businesses along the power sector value chain that complement its current power generation operations. Such vertical integration would encompass both upstream vertical integration (integration of power generation with fuel suppliers) and downstream vertical integration (integration of power generation with distribution and supply operations). SMC Global Power also intends to pursue downstream vertical integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. In August 2011, as part of the reorganization of the power-related businesses of San Miguel Corporation, SMC Global Power acquired from San Miguel Corporation a 100% equity interest in San Miguel Electric Corp. ("**SMELC**"), which holds a Retail Electricity Supplier ("**RES**") license from the ERC. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC, to enter into retail supply contracts ("**RSCs**") with end-users who have a choice on their supplier of electricity as may be certified by the ERC ("**Contestable Customers**"). SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc. ("Bonanza Energy"), Daguma Agro-Minerals, Inc. ("Daguma Agro") and Sultan Energy Phils. Corp. ("Sultan Energy"), also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao which may potentially serve as a source of coal fuel supply for its planned and contemplated greenfield power projects.

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

STRENGTHS

SMC Global Power believes its competitive strengths are the following:

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

STRATEGIES

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

- optimize the generation capacity of its power portfolio;
- grow its power portfolio through the development and acquisition of power generation capacity;
- vertically integrate complementary businesses; and
- leverage operational synergies.

CORPORATE INFORMATION

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

SUMMARY OF FINANCIAL INFORMATION

The summary of historical consolidated statement of financial position data as of December 31, 2013, December 31, 2014 and December 31, 2015 respectively and the summary of historical consolidated statement of income and cash flow data for the years ended December 31, 2013, December 31, 2014 and December 31, 2015, respectively set forth below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements of SMC Global Power, including the notes thereto, included elsewhere in this Prospectus. The consolidated financial statements of SMC Global Power as of and for the years ended December 31, 2013, 2014 and 2015 respectively, were audited by R.G. Manabat & Co.

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

CONSOLIDATED STATEMENT OF INCOME

	For the years ended December 31		
	2013	**2014**	**2015**
		(in millions of ₱)	
Revenues	74,043.8	84,293.6	77,506.7
Costs and Expenses			
Cost of power sold:			
Energy fees	31,269.3	30,775.9	23,224.2
Coal, fuel oil and other consumables	11,179.3	11,945.3	10,376.6
Power purchases	3,929.2	6,045.5	8,330.6
Depreciation and amortization	5,382.4	6,143.9	6,466.4
Plant operations and maintenance fees	194.4	575.6	502.2
Operating expenses	1,547.8	2,911.9	4,904.1
	53,502.4	58,398.1	53,804.1
	20,541.4	25,895.5	23,702.6
Gain on sale of investment	2,587.0	-	-
Equity in net earnings (losses) of associates and joint venture - net	795.0	(22.3)	(528.4)
Interest income	447.8	550.0	414.4
Interest expense and other financing charges	(12,673.9)	(13,168.5)	(13,130.3)
Other income (charges) - net	(8,491.1)	68.2	(5,926.1)
Income before income tax	3,206.4	13,322.9	4,532.3
Income tax expense (benefit) - net	(836.3)	2,693.4	2,703.4
Net Income	4,042.7	10,629.5	1,828.9
Basic/diluted earnings per share	₱3.23	₱7.73	(₱0.07)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,		
	2013	2014	2015
	(in millions of ₱)		
ASSETS			
Current Assets			
Cash and cash equivalents	29,125.2	38,304.3	22,241.4
Trade and other receivables - net	31,540.4	18,208.3	18,473.6
Inventories	1,499.1	1,365.0	1,263.2
Prepaid expenses and other current assets	7,234.9	9,137.2	15,068.7
Total Current Assets	69,399.6	67,014.9	57,047.0
Noncurrent Assets			
Property, plant and equipment - net	217,021.5	228,133.3	255,453.0
Investments and advances	6,011.8	10,612.3	10,612.9
Deferred exploration and development costs	526.0	671.8	689.5
Goodwill and other intangible assets	1,728.6	2,322.2	2,413.2
Deferred tax assets	2,909.1	2,779.4	2,745.9
Other noncurrent assets - net	3,506.3	2,215.4	2,248.2
Total Noncurrent Assets	231,703.3	246,734.4	274,162.9
	301,103.0	313,749.3	331,209.9
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	22,971.9	28,101.1	32,841.1
Finance lease liabilities - current portion	15,630.4	16,205.2	16,546.8
Current maturities of long term debt - net of debt issue costs	142.4	1,330.0	15,647.2
Income tax payable	218.5	151.4	99.3
Total Current Liabilities	38,963.3	45,787.7	65,134.3
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	46,946.5	47,383.2	42,960.6
Finance lease liabilities - net of current portion	179,372.3	170,098.5	162,646.4
Deferred tax liabilities	2,088.1	3,043.5	3,882.9
Other noncurrent liabilities - net of current portion	-	687.2	150.3
Total Noncurrent Liabilities	228,406.8	221,212.4	209,640.3
Total Liabilities	267,370.1	267,000.1	274,774.6
Equity			
Capital stock	1,062.5	1,062.5	1,062.5
Additional paid-in capital	2,490.0	2,490.0	2,490.0
Undated Subordinated Capital Securities	-	13,110.1	26,933.6
Reserves	785.3	785.3	785.3
Reserve for retirement plan	-	-	(15.6)
Retained earnings	29,395.1	29,301.3	25,179.6
Total Equity	33,732.8	46,749.2	56,435.3
	301,103.0	313,749.3	331,209.9

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31,		
	2013	2014	2015
	(in millions of ₱)		
Net cash flows provided by operating activities	25,664.0	32,855.8	25,251.1
Net cash flows used in investing activities	(20,764.8)	(6,432.7)	(34,751.2)
Net cash flows provided by (used in) financing activities	837.7	(16,430.3)	(6,955.4)
Effect of exchange rate changes on cash and cash equivalents	(167.2)	(813.6)	392.5
Net increase (decrease) in cash and cash equivalents	5,569.7	9,179.1	(16,062.9)
Cash and cash equivalents at beginning of period	23,555.4	29,125.2	38,304.3
Cash and cash equivalents at end of period	29,125.2	38,304.3	22,241.4

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

	For the years ended December 31,		
	2013	2014	2015
	(in millions of ₱, unless indicated otherwise)		
Net income	4,042.7	10,629.5	1,828.9
EBITDA(1)	8,051.9	10,150.2	5,458.4
Electricity sold (GWh)	16,162.7	17,001.4	16,557.7
of which: bilateral offtake agreements	13,315.5	14,891.4	14,713.7
of which: WESM sales	2,847.3	2,110.0	1,844.0
Electricity bought on WESM (GWh)	517.1	476.8	690.4
Average realized/paid electricity prices (₱/MWh)			
For electricity sold under bilateral offtake agreements	4,752.0	5,014.4	4,845.1
For electricity sold on WESM	3,783.0	4,560.5	3,371.5
For electricity purchased WESM	4,150.0	4,704.8	3,304.4
Net debt(2)	6,058.3	(2,419.7)	24,490.6
Ratio of net debt to EBITDA(3)	0.75	(0.24)	4.49

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

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

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

CALCULATION OF EBITDA

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

	For the years ended December 31,		
	2013	2014	2015
	(in millions of ₱)		
Net income	3,921.6	9,833.1	690.8
Add:			
Income tax expense (benefit)	(888.1)	2,352.0	2,215.7
Finance cost	12,557.7	12,582.8	12,385.6
Interest income	(446.9)	(539.0)	(395.9)
Depreciation	5,206.4	5,236.9	5,271.6
Less:			
Foreign exchange gains (loss)	(9,434.2)	(808.3)	(7,570.9)
Aggregate fixed payments made to PSALM(1)	19,146.0	20,124.0	22,280.1
Gain on sale of investment	2,587.0	-	-
EBITDA(2)	8,051.9	10,150.2	5,458.4

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

(2) Excludes amounts from ring-fenced subsidiaries. A subsidiary with a project debt was nominated as a ring-fenced subsidiary in 2013. If the amounts from ring-fenced subsidiaries were to be included, the EBITDA would amount to ₱8.5 billion, ₱12.8 billion and ₱9.1 billion for the years ended December 31, 2013, 2014 and 2015, respectively.

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus.

Issuer	SMC Global Power Holdings Corp.
Instrument	Philippine Peso denominated fixed rate with an aggregate principal amount of ₱15,000,000,000, consisting of Series A Bonds, Series B Bonds and Series C Bonds. While the Issuer has the discretion to allocate the principal amount among the Series A Bonds, Series B Bonds and Series C Bonds based on the bookbuilding process, the Issuer may opt not to allocate any of the principal amount to any of these series.
Use of Proceeds	1. Refinance the short term loan provided by BDO of which the proceeds were used to fully redeem the U.S.$300 million 7.0% Notes due 2016 of the Issuer. The Issuer shall source the U.S. dollars to pay said short term loan from internally available funds. 2. Payment of related transaction fees, costs and expenses 3. General corporate purposes (the Company may use a portion of the proceeds on other purposes such as operations-related expenses e.g. overhead expenses and taxes). The Company will pay BDO in U.S. dollars and shall not source U.S. dollars from the banking system.
Offer Price	100% of face value.
Form and Denomination of the Bonds	The Bonds shall be issued in scripless form in minimum denominations of ₱50,000 each, and in integral multiples of ₱10,000 thereafter.
Offer Period	The Offer shall commence at 9:00 AM of June 27, 2016 to 12:00 NN of July 1, 2016 or such other date as may be determined by the Issuer, Joint Issue Managers, Joint Lead Underwriters and Bookrunners.
Issue Date	July 11, 2016 or such other date as the Issuer, Joint Issue Managers, Joint Lead Underwriters and Bookrunners may agree in writing, provided that such date shall be a date which is within the validity of the SEC Permit to Sell Securities.

Maturity Date	Series A Bonds: July 11, 2021 or five (5) years from Issue Date Series B Bonds: July 11, 2023 or seven (7) years from Issue Date Series C Bonds: July 11, 2026 or ten (10) years from Issue Date
Interest Rate	Series A Bonds: Fixed interest rate of 4.3458% p.a. Series B Bonds: Fixed interest rate of 4.7575% p.a. Series C Bonds: Fixed interest rate of 5.1792% p.a.
Interest Payment	Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrears starting on October 11, 2016 for the first Interest Payment Date, and January 11, April 11, July 11 and October 11 of each year thereafter, for as long as the Bonds remain outstanding.
Early Redemption Option	The Issuer shall have the right, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant dates as set forth below. The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated, based on the principal amount of Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to and including the relevant Early Redemption Option Date; and (ii) the product of the principal amount of the Bonds being redeemed and the Early Redemption Price in accordance with the following schedule:

Early Redemption Option Date on Series A Bonds	Early Redemption Price
Third (3rd) anniversary from Issue Date	101.0%
Fourth (4th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series B Bonds	Early Redemption Price
Fifth (5th) anniversary from Issue Date	101.0%
Sixth (6th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series C Bonds	Early Redemption Price
Seventh anniversary (7th) from Issue Date	102.0%
Eight (8th) anniversary from Issue Date	101.0%
Ninth (9th) anniversary from Issue Date	100.5%

The Issuer shall give not more than sixty (60) days nor less than thirty (30) days prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds on the Early Redemption Date stated in such notice.

Redemption Due to Taxation		If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) days nor less than thirty (30) days' prior written notice) at par, plus accrued interest.
Final Redemption		The Bonds shall be redeemed at par or 100% of face value on their respective Maturity Dates, unless earlier redeemed by the Company.
Status of the Bonds		The Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMC Global Power and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of SMC Global Power, other than obligations preferred by law.
Negative Pledge		The Bonds will have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to the exceptions as described in page 61 of the Prospectus.
Listing		The Issuer intends to list the Bonds in the PDEx on Issue Date.
Governing Law		Philippines

Joint Issue Managers, Joint Lead Underwriters and Bookrunners		BDO Capital & Investment Corporation BPI Capital Corporation China Bank Capital Corporation Maybank ATR Kim Eng Capital Partners, Inc. PNB Capital and Investment Corporation RCBC Capital Corporation SB Capital Investment Corporation Standard Chartered Bank United Coconut Planters Bank
Registry and Paying Agent		Philippine Depository & Trust Corp.
Trustee		Philippine National Bank – Trust Banking Group

RISK FACTORS AND OTHER CONSIDERATIONS

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

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

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

RISKS RELATING TO SMC GLOBAL POWER

Increased competition in the Philippine power industry.

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

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

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

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

Disruptions in fuel supply.

The operations of the Sual Power Plant, Limay Cogeneration Plant, and Ilijan Power Plant depend on the availability of fuel, in particular coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirement of the Sual Power Plant and Limay Cogeneration Plant. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants. For example, SCPC has existing coal supply agreements with internationally recognized coal suppliers, such as PT Bayan Resources TBK ("**Bayan**") and PT Kaltim Prima Coal ("**KPC**").

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

SMC Global Power, through its subsidiaries, has fuel supply agreements with recognized, reputable, and reliable domestic and international coal suppliers, such as but not limited to PT Bukit Asam (Persero) TBK, Glencore International AG, PT Trubaindo Coal Mining, Noble Resources International Pte Ltd., Vitol Asia Pte. Ltd., PT Kaltim Prima Coal, Avra Commodities Pte. Ltd., for its power plants. The diversity of coal suppliers of the Company provides assurance of fuel supply limiting any issues with any specific region or supplier. For Natural Gas, NPC/PSALM is contractually obligated to deliver supply of fuel to the Ilijan plant under the IPPA Agreement. The Company has no direct relationship with the supplier of natural gas. However, events of shutdown or gas restrictions can be interpreted as force majeure or may be covered by the outage provisions of the downstream Power Supply Agreements ("**PSAs**") of SPPC, limiting any adverse effects to the Company of disruptions in the supply of natural gas.

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

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

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

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

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

Market limitations under the Electric Power Industry Reform Act of 2001 ("EPIRA").

As of December 31, 2015, SMC Global Power, through its IPPA and IPP subsidiaries, had a 22% market share of the Luzon grid and a 17% market share of the national grid in terms of installed capacity based on industry data from the ERC. The EPIRA limits the market share of a participant to 30% per grid and 25% of the national grid by installed capacity. SMC Global Power may not receive permission to increase its capacity and market share if this would result in exceeding the permitted capacity or market share prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business prospects of SMC Global Power.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the growth of the Philippine power industry. Pursuant to the EPIRA limits, SMC Global Power may still expand by as much as 1,493 MW nationwide, but limited to the following capacities per grid: 1,014 MW in Luzon, 709 MW in Visayas and 649 MW in Mindanao. At the current levels, SMC Global Power is within the market share cap even with the addition of the greenfield power projects of the Company under construction today.

Development of greenfield power projects.

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

Under the Engineering, Procurement and Construction ("EPC") contracts, the Company will be indemnified in the event of delay and/or default of the EPC Contractor. To ensure timely delivery and performance, the EPC Contracts provide for a schedule of payments of the contract price based on agreed milestones. SMC Global Power checks on the accomplishments of the EPC Contractor prior to the release of the corresponding payment per milestone.

Adverse effect of WESM price fluctuations.

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

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

On March 3, 2014, the ERC issued an order declaring the prices in the WESM for the November and December 2013 billing months as null and void (the "**ERC Order**"). SMC Global Power filed a motion for reconsideration of the ERC Order, the resolution of which is currently pending. See "Certain Legal Proceedings" of this Prospectus.

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

The strategy of the Company is to source majority of its revenues from bilateral offtake agreements. This ensures cash flows while minimizing the exposure of the Company to any unfavorable fluctuations in WESM prices. Revenue from bilateral contracts with offtakers contributed 85%, 89% and 92% of total revenue for the years ended December 31, 2013, 2014 and 2015, respectively.

Non-renewal of or non-compliance with offtake agreements.

SMC Global Power, through its subsidiaries, has offtake agreements with various distribution utilities, electric cooperatives and large industrial and commercial users. Some offtake agreements will expire before the termination of the applicable IPPA Agreement, although they may be renewed by mutual agreement of the parties. The IPPA Agreements provide that the amounts of payment obligations of SMC Global Power will increase over time. While SMC Global Power intends to renew the offtake agreements upon expiration to provide stable and predictable revenue streams to meet its obligations under the IPPA Agreements, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements or at all. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power. In particular, sales to Meralco in 2015 under the respective PSAs in relation to the Ilijan and Sual Power Plants comprised approximately 59% of the revenue of SMC Global Power from sales of power from the IPPA Power Plants. The Ilijan Power Plant PSA will expire in 2019 and can be extended up to the end of the IPPA period in 2022 while the Sual Power Plant PSA will expire in 2019 and can be extended up to the end of the IPPA period in 2024, in each case upon mutual agreement of the parties. When the current offtake agreements with Meralco expire or are otherwise renegotiated, they may be renewed for lower electricity volumes than in the past or on different terms, including under different pricing terms. Meralco is preparing to enter the power generation business and is expected to become a direct competitor of SMC Global Power.

In addition, there can be no assurance that Meralco and other offtakers will be able to meet their future payment obligations under their agreements with the subsidiaries of SMC Global Power.

The business, cash flows, earnings, results of operations and financial condition of SMC Global Power could be materially and adversely affected if Meralco does not renew its offtake agreements with SMC Global Power under favorable terms or at all or if Meralco and other offtakers are unable to meet their payment obligations under existing agreements, and SMC Global Power is unable to find new customers to replace Meralco and other offtakers.

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

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

Operating capacities of its power portfolio.

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

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;

- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits and approvals;
- opposition from local communities and special interest groups; and
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage and plant destruction.

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

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

Insurance coverage for IPPA Plants.

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

While the Company has not experienced any major downturn in the operations of the IPPA Power Plants brought about by unexpected losses caused by natural disasters or other events that could affect its facilities, the Company believes that it can withstand such events with its business strategies in place. SMC Global Power also has a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives. For further discussion on the business strategy of the Company, please refer to page 84.

Insurance coverage for generation plants.

The power generation plants owned by the subsidiaries of SMC Global Power may not be fully insured against, and insurance may not be available for, unexpected losses caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses.

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

Any accident at the facilities of the SMC Global Power could result in significant losses.

SMC Global Power could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses. Such events could materially and adversely affect the financial condition and results of operations of SMC Global Power.

The Company has secured the necessary insurances for the power plants that it owns to cover all insurable risks.

No direct contractual and operational relationship.

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

Foreign exchange risk.

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

SMC Global Power issued bonds with an aggregate principal amount of U.S.$300 million in January 2011 which was redeemed in January 2016. A U.S.$300 million short term loan was drawn with BDO to fund the redemption of said bonds. The Company has also fully drawn its U.S.$700 million loan facility as of March 2015. Moreover, in May 2014 and August 2015, SMC Global Power issued U.S.$300 million of undated subordinated capital securities and U.S.$300 million of undated subordinated capital securities, respectively. A depreciation of the Peso, particularly with respect to the U.S. dollar, increases the Peso equivalent value of the foreign currency-denominated costs and obligations of SMC Global Power. This could adversely affect the results of operations of SMC Global Power and its ability to service its foreign currency-denominated liabilities.

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

SMC Global Power actively evaluates combination of natural hedges such as holding U.S. dollar-denominated assets and liabilities, foreign exchange adjustments in the tariffs, and derivative instruments to manage its exchange rate risk exposure. The Company also considers redenomination of U.S. dollar-denominated obligation to Philippine Peso-denominated obligation to minimize exposure to foreign exchange fluctuations.

Variations in hydrological conditions and irrigation requirements.

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

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

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

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

Challenges in successfully implementing its growth strategy.

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

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

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

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

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

Availability of financing.

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

The Company employs a system of financial prudence and good corporate governance to manage the risks relating to debt and equity financing. The Company can also rely on its strengths to navigate and have continual access to financing. For further discussions on these strengths, please refer to Strengths of SMC Global Power on page 81.

Significant finance lease obligations.

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

Each of the IPPA Agreements requires the IPPA subsidiaries of SMC Global Power to make monthly payments consisting of two separate components: a “fixed” payment, the amount of which in any given month is specified by the IPPA Agreement itself, and a variable payment, the amount of which in any given month depends on the amount of power delivered by the IPPA Power Plant, subject to certain adjustments. Through the IPPA Agreements, the IPPA subsidiaries of SMC Global Power has acquired substantially all of the risks (except for the operations and maintenance) and rewards incidental to ownership of the IPP Power Plants, therefore the IPPA subsidiaries of SMC Global Power accounts for the IPPA Agreements as finance leases. Accordingly, upon entry into each IPPA Agreement, the IPPA subsidiaries of SMC Global Power recognized the related power plant as an asset in its balance sheet under "property, plant and equipment" based on the present value of the fixed monthly payments due to PSALM under the IPPA Agreement and recognized a corresponding liability in its balance sheet under "finance lease liabilities."

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

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

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

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

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

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

Dependence on the existence of transmission infrastructure.

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas grid and the lack of any interconnectivity between the Luzon-Visayas grid and the Mindanao grid.

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

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

Certain tax exemptions and tax incentives.

As of December 31, 2015, certain subsidiaries of SMC Global Power that were registered with the Board of Investments as new operators with pioneer status, namely, SMC Consolidated Power Corporation for the Limay Greenfield Power Plant and San Miguel Consolidated Power Corporation for the Davao Greenfield Power Plant, benefit from certain tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements and duty-free importation of capital equipment, spare parts and accessories.

In the event of expiration, revocation or repeal of these tax exemptions or tax incentives, the income from these sources will be subject to the corporate income tax rate, which is 30.0% of net taxable income as of December 31, 2015. As a result, the consolidated tax expense of SMC Global Power would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Government Regulation.

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

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

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

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

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

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

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

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

ERC Regulation of electricity rates of distribution utilities.

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

Sales to distribution utilities accounts for majority of the consolidated sales volume of SMC Global Power for the year ended December 31, 2015. While rates charged by SMC Global Power through its subsidiaries under their offtake agreements, including those with distribution utilities, are not regulated by the ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC. Accordingly, the ability of distribution utility customers to pay the subsidiaries of SMC Global Power largely depends on their ability to pass on their power costs to their customers. There is also no assurance that the current laws, regulations, and issuances affecting the industry, particularly the EPIRA and the issuances of the ERC, will not change or be amended in the future.

There is no assurance that the ERC will permit the distribution utility customers of the subsidiaries of SMC Global Power to pass on or increase their rates or that subsequent reviews by the ERC will not result in the cancellation of any such increases or require such customers to refund payments previously received from their customers. There is also no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. The case is pending resolution by the Supreme Court. The ERC also issued an order dated March 3, 2014 which voided the WESM prices for the November and December 2013 billing months and imposed prices to be recalculated by Philippine Electricity Market Corporation ("**PEMC**"). SMC Global Power has a pending request with the ERC to reconsider the ERC Order. The ERC in the exercise of its regulatory powers may also impose fines, penalties, or sanctions to SMC Global Power in appropriate cases. Any restriction on the ability of distribution utilities to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions and results of operations of SMC Global Power.

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

Trading on the WESM.

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

Currently, the ERC has implemented a reduced primary bid cap of ₱32,000 per MWh. In addition, a permanent secondary price cap limits spot prices to ₱6,245 per MWh for as long as cumulative spot prices breach a certain threshold. Prices are automatically capped at ₱6,245 per MWh for hours where the average price for the last 168-hours exceeds ₱9,000 per MWh.

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

Majority of the capacity of the subsidiaries of the Company is contracted through PSAs with various offtakers. In addition, the Company continues to engage in comprehensive discussions and maintains good working relationship with the PEMC to align its trading strategies with reasonable and acceptable standards and best practices. For further discussions, please refer to Business Strategies on page 84.

Possible conflicts of interest.

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

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

Dependence on the support of San Miguel Corporation.

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

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

Legal and other proceedings arising out of its operations.

The Company and its subsidiaries, from time to time, may be involved in disputes with various parties involved in the generation, supply and sale of electric power, including contractual disputes with subcontractors, suppliers and government agencies such as the legal matters discussed in Note 28 of the consolidated financial statements of SMC Global Power as of and for the year ended December 31, 2015. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the operations of the SMC Global Power. The Company may also have disagreements with regulatory bodies in the ordinary course of its business, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its greenfield projects and its current operations. In such cases, the business, financial condition, results of operations and cash flows of the SMC Global Power could be materially and adversely affected.

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

RISKS RELATING TO THE PHILIPPINES

Political instability.

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

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Company.

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

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

Territorial and other disputes with neighboring states.

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

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

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

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

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

The sovereign credit ratings of the Philippines.

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, Fitch Ratings and Moody's to investment-grade, no assurance can be given that Standard & Poor's, Fitch Ratings or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including SMC Global Power, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Natural catastrophes.

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

Management of risks related to the Philippines

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

RISKS RELATING TO THE BONDS

Liquidity.

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

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

Reinvestment.

Upon the occurrence of certain events such as a change in Philippine tax or regulatory laws or their general application or interpretation having an effect on the Company, the Bonds could be redeemed in whole but not in part prior to the Maturity Date. In such an event, the Bonds shall be redeemed at the relevant Issue Price plus accrued interest.

The Company may also exercise its redemption option, as described under the section "Description of the Bonds – Redemption and Purchase." The amount payable to the Bondholders in respect of such redemptions shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) accrued interest on the Bonds on the Optional Redemption Date; and (ii) the product of the principal amount and the applicable Optional Redemption Price in accordance with the following schedule:

Early Redemption Option Date on Series A bonds	**Early Redemption Price**
Third (3rd) anniversary from Issue Date	101.0%
Fourth (4th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series B Bonds	**Early Redemption Price**
Fifth (5th) anniversary from Issue Date	101.0%
Sixth (6th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series C Bonds	**Early Redemption Price**
Seventh anniversary (7th) from Issue Date	102.0%
Eight (8th) anniversary from Issue Date	101.0%
Ninth (9th) anniversary from Issue Date	100.5%

There is no assurance that, after such redemption, investors will be able to reinvest in alternative securities with comparable yields.

Pricing

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

Retention of Ratings

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

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

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

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

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

USE OF PROCEEDS

The Company intends to use the proceeds of this Offer to refinance the outstanding short term loan with BDO drawn on January 25, 2016 in the amount of U.S.$300 million to mature on July 25, 2016. The Issuer shall source the U.S. dollars to pay said short term loan from internally available funds. The short term loan was used to redeem the U.S.$300 million 7.0% Notes due 2016 of SMC Global Power. The balance will be used for payment of related transaction fees, costs and expenses and for general corporate purposes (the Company may use a portion of the proceeds on other purposes such as operations-related expenses, e.g. overhead expenses and taxes).

BDO Capital, BPI Capital, China Bank Capital, MATRKE, PNB Capital, RCBC Capital, SB Capital, SCB and UCPB are the Joint Issue Managers, Joint Lead Underwriters and Bookrunners of the Offer.

BDO Capital is a wholly-owned subsidiary of BDO. BDO will receive full payment out of the proceeds of the Offer as the Lender under the short term loan.

The Company expects that the net proceeds of the Offering shall amount to approximately ₱14,828,543,589 after payment of fees, commissions and expenses.

Net proceeds from the Offering are estimated to be at least as follows:

For a ₱15.0 billion Issue Size		
		Total
		15,000,000,000
Documentary Stamp Tax	75,000,000	
SEC Registration Fee	4,355,625	
SEC Legal Research and Publication Fee	55,625	
SEC Publication Fee	100,000	
Gross Underwriting Fee and Other Professional Fees	90,645,161	
PDEX Listing Application Fee	300,000	
Printing Cost	200,000	
Trustee Fees	300,000	
Paying Agency and Registry Fees	200,000	
Miscellaneous Fees	300,000	171,456,411
	TOTAL	**14,828,543,589**

In the event of any substantial deviation/adjustment in the planned use of proceeds, the Company shall inform the SEC and the Bondholders within a reasonable period of time prior to its implementation.

Pending disbursement for the refinancing of the outstanding short term loan, the Company intends to invest the net proceeds from the Offer in short-term liquid investments including, but not limited to, short-term government securities, bank deposits and money market placements which are expected to earn prevailing market rates.

No material amount of proceeds shall be used to reimburse any officer, director, employee, or shareholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

DETERMINATION OF OFFER PRICE

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

PLAN OF DISTRIBUTION

SMC Global Power plans to issue the Bonds to institutional and retail investors through a general public offering to be conducted through the Joint Issue Managers, Joint Lead Underwriters and Bookrunners.

JOINT ISSUE MANAGERS, JOINT LEAD UNDERWRITERS AND BOOKRUNNERS

The Joint Issue Managers, Joint Lead Underwriters and Bookrunners, pursuant to an Underwriting Agreement with SMC Global Power executed on June 23, 2016, (the "**Underwriting Agreement**"), have agreed to act as the Underwriters for the Offer and as such, distribute and sell the Bonds at the Offer Price. Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Issue Managers, Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Issue Managers, Joint Lead Underwriters and Bookrunners	Underwriting Commitment
BDO Capital	₱ 1,666,670,000
BPI Capital	₱ 1,666,670,000
China Bank Capital	₱ 1,666,670,000
MATRKE	₱ 1,666,670,000
PNB Capital	₱ 1,666,670,000
RCBC Capital	₱ 1,666,670,000
SB Capital	₱ 1,666,660,000
SCB	₱ 1,666,660,000
UCPB	₱ 1,666,660,000
TOTAL	₱ 15,000,000,000

There is no arrangement for any of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners to put back to the Issuer any unsold Bonds.

The Issuer shall pay each of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners a fee of 0.50% based on its underwriting commitment, which shall be grossed up for gross receipts tax of 7%. The fees due to the Joint Issue Managers, Joint Lead Underwriters and Bookrunners together with any applicable gross receipts tax or its equivalent less any applicable withholding tax arising in respect of such fee, shall be due and payable by the Issuer to the Joint Issue Managers, Joint Lead Underwriters and Bookrunners immediately upon receipt of confirmation from the bank of the Issuer that cleared funds representing payments for all accepted Applications to Purchase have been credited to the account designated by the Issuer.

The Issue Management and Underwriting Agreement may be terminated or suspended by the Joint Issue Managers, Joint Lead Underwriters and Bookrunners under certain circumstances prior to the issuance of the Bonds and payment being made to the Company of the net proceeds of the Bonds. The Joint Issue Managers, Joint Lead Underwriters and Bookrunners are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Issue Managers, Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of business for the Company. The Joint Issue Managers, Joint Lead Underwriters and Bookrunners have no direct relations with the Company in terms of ownership by either of their respective major stockholder(s), and have no right to designate or nominate any member of the Board of Directors of the Company.

BDO Capital was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of December 31, 2014, it had ₱3.04 billion and ₱2.26 billion in consolidated resources and capital, respectively. It has an authorized capital stock of ₱400 million, of which approximately ₱300 million represents its paid-up capital.

BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December of 1994, BPI Capital is duly licensed by the SEC to engage in the underwriting and distribution of securities. As of December 31, 2014, BPI Capital had total assets of ₱5.36 billion and total capital funds of ₱5.17 billion. The firm operates as a wholly-owned subsidiary of the Bank of the Philippine Islands.

China Bank Capital, a subsidiary of China Banking Corporation, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Banking Corporation's investment banking group, which was organized in 2012.

MATRKE was incorporated in the Philippines on September 4, 1990. It is duly licensed by the SEC to operate as an investment house and, as such, to engage in underwriting or distribution of securities to the public. As of December 31, 2014, its total assets amounted to ₱3.5 billion and its capital base (or equity) amounted to approximately ₱1.5 billion. It has authorized capital shares of 15.94 million (9,940,000 common shares and 6,000,000 preferred shares), of which approximately ₱870.8 million represents its paid-up capital. Its senior executives have extensive experience in the capital markets and were involved in lead roles in a substantial number of major equity and debt issues, both locally and internationally.

PNB Capital, an investment house was incorporated on July 30, 1997 and commenced operations on October 8, 1997. It is a wholly-owned subsidiary of the Philippine National Bank. As of December 31, 2015, it had an authorized and paid-up capital of ₱350.0 million. Its principal business is providing investment banking services, namely: debt underwriting (bonds, commercial papers), equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorized to buy and sell for its own account, securities issued by private corporations and the government of the Philippines. As of December 31, 2015, total assets of PNB Capital were at ₱722.5 million while total capital was at ₱629.9 million.

RCBC Capital is a licensed investment house providing a complete range of capital-raising and financial advisory services. Established in 1974, RCBC Capital has over 40 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country’s largest fully integrated financial services conglomerates. As of December 31, 2015, RCBC Capital’s total assets were ₱3.56 billion while total capital was ₱3.51 billion.

SB Capital is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

SCB is a banking corporation duly organized and incorporated in England with limited liability by Royal Charter in 1853, and licensed to act as a banking institution under and by virtue of the laws of the Republic of the Philippines through its Branch Office, with 15 principal offices in Makati City. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its profits in Asia, Africa, and Middle East. Operating in the Philippines since 1872, SCB is a universal bank and is the longest established foreign bank in the country. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, credit cards, and custodial services. The bank also provides capital raising solutions such as local currency and G3 currency fixed income and loan syndications.

UCPB was established in 1963 as a commercial bank and grew to become the first private Philippine universal bank in 1981, thus enabling it to invest in non-allied businesses. Today, with assets over ₱200 billion, 188 branches throughout the country and over fifty years of banking experience, UCPB is confident in the core strengths it has developed. UCPB offers a full range of expanded commercial banking services. The bank has strong capabilities in corporate banking, commercial credit, international trade financing, treasury and money market operations, trust banking, and consumer banking.

BDO Capital is a wholly-owned subsidiary of BDO. BDO will receive full payment out of the proceeds of the Offer as the Lender under the short term loan.

SALE AND DISTRIBUTION

The sale and distribution of the Bonds shall be undertaken by the Joint Issue Managers, Joint Lead Underwriters and Bookrunners who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners from purchasing the Bonds for their own respective accounts.

There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

The Joint Issue Managers, Joint Lead Underwriters and Bookrunners are authorized to organize a syndicate of participating underwriters for the purpose of the Offer. However, the Joint Issue Managers, Joint Lead Underwriters and Bookrunners shall remain solely responsible to the Issuer in respect of their obligations under the Issue Management and Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Joint Issue Managers, Joint Lead Underwriters and Bookrunners with the participating underwriters. The Company has no obligation to any member of such syndicate for the payment of any fee, underwriting or participating commissions.

TERM OF APPOINTMENT

The engagement of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners shall subsist in accordance with the terms of the Issue Management and Underwriting Agreement. The obligations of each of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners. Unless otherwise expressly provided in the Underwriting Agreement, the failure by a Joint Issue Manager, Joint Lead Underwriter and Bookrunner to carry out its obligations thereunder shall neither relieve the other Joint Issue Managers, Joint Lead Underwriters and Bookrunners of their obligations under the same Underwriting Agreement, nor shall any Joint Issue Manager, Joint Lead Underwriter and Bookrunner be responsible for the obligation of another Joint Issue Manager, Joint Lead Underwriter and Bookrunner.

MANNER OF DISTRIBUTION

The Joint Issue Managers, Joint Lead Underwriters and Bookrunners and the Issuer shall agree on the procedure for application, acceptance, or rejection of the Applications to Purchase, whether in whole or in part (the "Allocation Plan"). Consistent with bank procedures and the Allocation Plan, each of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners shall observe the policies and procedures regarding acceptance of Applications to Purchase, evaluation and assessment of such applications and supporting documentary requirements, allocations of the Bonds to clients and acceptance of deposits of its potential investors.

OFFER PERIOD

The Offer Period shall commence at 9:00 AM of June 27, 2016 and end at 12:00 NN of July 1, 2016 or such other dates as may be determined by the Issuer and Joint Issue Managers, Joint Lead Underwriters and Bookrunners.

APPLICATION TO PURCHASE

All Applications to Purchase the Bonds shall be evidenced by a duly completed and signed Application to Purchase, together with two fully executed signature cards authenticated by the Corporate Secretary or any equivalent authorized officer with respect to corporate and institutional investors. The purchase price must be paid in full in Pesos upon the submission of the duly completed and signed Application to Purchase and signature card together with the requisite attachments. Payment for the Bonds shall be made either by: (i) a personal or corporate check drawn against an account with an authorized bank of the Bangko Sentral ng Pilipinas ("**BSP**") at any of its branches located in Metro Manila; or (ii) a manager's or cashier's check issued by an authorized bank. All checks should be made payable to "SMC Global Power Bonds Offering", crossed "Payee's Account Only," and dated the same date as the Application. The Applications and the related payments will be received at any of the offices of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners. Applicants submitting their Application to a Joint Issue Manager, Joint Lead Underwriter and Bookrunner may also remit payment for their Bonds through the Real Time Gross Settlement ("**RTGS**") facility of the BSP to the Joint Issue Manager, Joint Lead Underwriter and Bookrunner to whom such Application was submitted or via direct debit to their deposit account maintained with such Joint Issue Manager, Joint Lead Underwriter and Bookrunner. Cash payments shall not be accepted.

Should the applicant elect to pay through RTGS, the Application should be accompanied by an instruction issued by the applicant to effect payment through RTGS in an amount equal to the total Offer Price of the Bonds applied for, to be effected and fully funded not later than 12:00 NN of July 1, 2016.

Should the applicant elect to pay by a debit memo or instruction, the Application should be accompanied by a debit memo or instruction issued by the applicant in an amount equal to the total Offer Price applied for in favor of the Joint Issue Managers, Joint Lead Underwriters and Bookrunners to whom the Application is submitted, to be effected no later than 12:00 NN of July 1, 2016.

Corporate and institutional purchasers must also submit a copy of SEC-certified or corporate secretary (or any equivalent authorized officer) certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-laws, General Information Sheet, or such other relevant organizational or charter documents, and the original or corporate secretary or any equivalent officer-certified true copy of the duly notarized certificate confirming the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory/ies therefore. Individual applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank.

An applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner (together with their Applications) who shall then forward the same to the Registrar and Paying Agent, subject to acceptance by the Company as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the applicant as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the Bondholder, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Joint Issue Managers, Joint Lead Underwriters and Bookrunners shall be responsible for accepting or rejecting any Application or scaling down the amount of Bonds applied for. The Application, once accepted, shall constitute the duly executed purchase agreement covering the amount of Bonds so accepted and shall be valid and binding on the Company and the applicant.

MINIMUM PURCHASE

A minimum purchase of Fifty Thousand Pesos (₱50,000.00) shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of Ten Thousand Pesos (₱10,000.00).

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to the right of rejection of SMC Global Power.

ACCEPTANCE OF APPLICATIONS

SMC Global Power and the Joint Issue Managers, Joint Lead Underwriters and Bookrunners reserve the right to accept or reject applications to subscribe in the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner.

REFUNDS

In the event an Application to Purchase is rejected or the amount of Bonds applied for is scaled down, the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner, upon receipt of the Allocation Report, shall notify the applicant concerned that his application has been rejected or that the amount of Bonds applied for is scaled down. Payments made by the applicants whose Applications to Purchase are rejected or scaled down will be returned to them no later than three Business Days after the Issue Date by the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner to whom the Application to Purchase was submitted, in full (in case of a rejection) or in a proportionate sum corresponding to the amount of the Bonds partially rejected (in case of a scale down), but in both instances without any interest whatsoever. Refund shall be made either (i) through the issuance of a check payable to the order of the applicant and crossed “Payee’s Account Only” and mailed or delivered, at the risk of the applicant, to the address specified in the Application to Purchase; or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant applicants, as indicated in their respective Applications to Purchase. The Issuer and the Joint Issue Managers, Joint Lead Underwriters and Bookrunners shall not be liable in any manner to the applicant for any refund corresponding to any rejected or scaled-down Application to Purchase which is not transmitted by the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner. In such case, the relevant Joint Issue Manager, Joint Lead Underwriter and Bookrunner shall be responsible directly to their respective applicants for the actual refund of the payment.

REGISTER OF BONDHOLDERS

The Bonds shall be issued in scripless form and shall be registered in the scripless Register of Bondholders maintained by the Registrar. A Master Certificate of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Register of Bondholders to be maintained by the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Register of Bondholders.

DESCRIPTION OF THE BONDS

*The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the articles of incorporation, by-laws and resolutions of the Board of Directors and Stockholders of SMC Global Power submitted to the SEC, the information contained in this Prospectus, the Trust Agreement, Registry and Paying Agency Agreement ("**RPAA**"), Issue Management and Underwriting Agreement, and other documents relevant to the Offer. Prospective investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the issued Bonds.*

The issue of the Bonds was authorized by a resolution of the Board of Directors of the Issuer passed on April 11, 2016. The Bonds shall be governed by a Trust Agreement executed on June 23, 2016 (the "**Trust Agreement**") between the Issuer and Philippine National Bank – Trust Banking Group (the "**Trustee**"). The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. The RPAA was executed on June 23, 2016, between the Issuer and PDTC. The Bonds will be offered and sold through a general public offering in the Philippines, and issued in minimum principal amounts of ₱50,000.00, and multiples of ₱10,000.00 in excess thereof, and traded in amounts of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof. While the Issuer has the discretion to allocate the principal amount among the Series A Bonds, Series B Bonds and Series C Bonds based on the bookbuilding process, the Issuer may opt not to allocate any of the principal amount to any of these series. The Series A Bonds shall mature on July 11, 2021, Series B Bonds shall mature on July 11, 2023 and the Series C Bonds shall mature on July 11, 2026, (the "**Maturity Dates**"), unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment as summarized below.

Copies of the Trust Agreement and the RPAA will be available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and the RPAA applicable to them.

FORM, DENOMINATION AND TITLE

Form and Denomination

The Bonds are in scripless form, and will be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 in excess thereof.

Title

Legal title to the Bonds will be shown in the Register of Bondholders. A notice confirming the principal amount of the Bonds purchased by each applicant in the offer for sale, distribution and issuance of the Bonds by the Issuer will be issued by the Registrar to all Bondholders after the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the Register of Bondholders Settlement with respect to such transfer or change of title on the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamp taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Bonds have been rated Aaa by PhilRatings. The rating is subject to regular annual review, or more frequently as market developments may dictate, for as long as the Bonds are outstanding.

In formulating its rating, PhilRatings considered the good market standing of the Company despite its relatively short operating history, strong parent company support and synergies derived from San Miguel Corporation with a team of experienced professionals managing the Company, and the sound cash generating ability from operations of the Company. PhilRatings also considered the impact of foreign exchange movements on the profitability of the Company and the outstanding legal issues that may have an impact on operations of SMC Global Power.

TRANSFER OF BONDS

Register of Bondholders

The Issuer will cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and assignments of the Bonds, including any liens and encumbrances thereon, shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the system of the Registrar (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a Record Date as defined in the Section on "Interest Payment Date" until the relevant Payment Date.

Transfers; Tax Status

The Bonds may be transferred upon exchange of confirmation of sale and confirmation of purchase, or by book entry in recording platforms maintained by approved securities dealers. The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfer. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any documentary stamp taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Subject to the provisions of the RPAA, Bondholders may transfer their Bonds at anytime to a transferee of the same tax status. Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers between taxable and non-taxable entities, between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the RPAA within three (3) Business Days from the settlement date for such transfer. Such Bondholder must also submit the documents for claiming tax exemption or entitlement to preferential tax rates as required under the RPAA to the Registrar no later than three (3) Business Days prior to the Record Date. Otherwise, the Bondholders will be treated as taxable on Record Date. Notwithstanding the submission by the Bondholder, or the receipt by the Issuer, the Registrar, the Joint Issue Managers, Joint Lead Underwriters and Bookrunners of documentary proof of tax-exempt status of a Bondholder, the Issuer may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Bonds. Any question on such determination shall be referred to the Issuer.

The Bondholders shall be responsible for monitoring and accurately reflecting their tax status in the Register of Bondholders. The payment report to be prepared by the Registrar and submitted to the Issuer in accordance with the RPAA, which shall be the basis of payments on the Bonds on any Payment Date, shall reflect the tax status of the Bondholders as indicated in their accounts as of the Record Date.

SECONDARY TRADING

The Issuer intends to list the Bonds in PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00 as a minimum, and in multiples of ₱10,000.00 in excess thereof for so long as any of the Bonds are listed in PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC, all of which shall be for the account of the Bondholders.

RANKING

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and ratably without any preference or priority amongst themselves and at least pari passu with all other present and future, contingent or otherwise, unsecured and unsubordinated obligations of the Issuer, except for any statutory preference or priority established by law.

INTEREST

Interest Payment Dates

Each Series A Bond bear interest on its principal amount from and including Issue Date at the rate of 4.3458% per annum, payable quarterly in arrears on January 11, April 11, July 11, and October 11 of each year commencing on October 11, 2016 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day (each of which, for purposes of this clause is an “Interest Payment Date”).

Each Series B Bond bear interest on its principal amount from and including Issue Date at the rate of 4.7575% per annum, payable quarterly in arrears on January 11, April 11, July 11, and October 11 of each year commencing on October 11, 2016 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day (each of which, for purposes of this clause is an “Interest Payment Date”).

Each Series C Bond bear interest on its principal amount from and including Issue Date at the rate of 5.1792% per annum, payable quarterly in arrears on January 11, April 11, July 11, and October 11 of each year commencing on October 11, 2016 or the subsequent Business Day without adjustment if such Interest Payment Date is not a Business Day (each of which, for purposes of this clause is an “Interest Payment Date”).

The cut-off date in determining the existing Bondholders entitled to receive interest, principal or any amount due under the Bonds shall be the second (2^{nd}) Business Day immediately preceding the relevant Payment Date (the “Record Date”). No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

Interest Accrual

Each Bond will cease to bear interest on the Maturity Date, unless, upon due presentation, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of such payment, in which case, the Penalty Interest (see "Penalty Interest" below), will apply.

Calculation of Interest

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

REDEMPTION AND PURCHASE

Final Redemption

Unless earlier redeemed, purchased and cancelled in accordance with the Trust Agreement, the Series A Bonds, Series B Bonds and Series C Bonds will be redeemed at par or 100.00% of their face value on their respective Maturity Dates. However, payment of all amounts due on the Bonds on such dates may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the relevant Maturity Date is not a Business Day.

Early Redemption due to Taxation, Change in Law or Circumstance

If payments under the Bonds become subject to additional or increased taxes other than the taxes prevailing on the Issue Date as a result of certain Changes in Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, then the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days nor less than 30 days' notice to the Trustee, the Registrar and the Paying Agent) at par plus accrued interest; provided that if the Issuer does not redeem the Bonds then all payments of principal and interest in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any such new or additional taxes, duties, assessments or governmental charges, unless such withholding or deduction is required by law. In that event, the Issuer shall pay to the Bondholders concerned, such additional amount as will result in the receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction for new or additional taxes been required.

In the event that there shall hereafter occur any Change in Law, or any approval, permit, license, consent, authorization, registration, exemption, concession, franchise, privilege, or any other right to be granted or granted by the Government to the Issuer now or hereafter necessary for the conduct of the business or operations of the Issuer is not obtained, or is subsequently terminated, withdrawn, rescinded, or amended, and the result of any of the foregoing, as determined by the Issuer, will materially and adversely affect the ability of the Issuer to comply with its obligations under the Bonds or the Trust Agreement or the financial position or operations of the Issuer, then the Issuer may redeem the Bonds at any time in whole, but not in part (having given not more than 60 days' nor less than 30 days' notice to the Trustee, the Registrar and the Paying Agent from the time of the occurrence of the event) at par plus accrued interest.

If any provision of the Issue Management and Underwriting Agreement, Trust Agreement, or the RPAA shall become, for any reason, invalid, illegal or unenforceable, or any act or condition or thing required to be done, fulfilled or performed at any time by the Issuer is not done, fulfilled or performed, to the extent that it will become unlawful for the Issuer to give effect to its rights and obligations under the Issue Management and Underwriting Agreement, Trust Agreement, the RPAA, or the Bonds or to enforce the provisions of the Issue Management and Underwriting Agreement, Trust Agreement, the RPAA or the Bonds in whole or in part, then the Issuer may redeem the Bonds at any time in whole, but not in part (having given not more than 60 days nor less than 30 days' notice to the Trustee, the Registrar and the Paying Agent from the time of illegality) at par plus accrued interest.

As used herein, the following events shall be considered as changes in law or circumstances (*"***Change in Law***"*) as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under this Agreement and the Bonds:

(i) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under this Agreement or the Bonds shall be modified in a manner which shall materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld.

(ii) Any provision of this Agreement or any of the Transaction Documents is or shall become, for any reason, invalid, illegal or unenforceable to the extent that it shall become for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of this Agreement or any of the Transaction Documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under this Agreement or any other Transaction Document.

(iii) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

Upon the occurrence of any of the events mentioned in Sections 8.3(d)(i), 8.3(d)(ii) or 8.3(d)(iii), the Trustee shall secure from the Registrar an updated list of Bondholders and provide written notices to all registered Bondholders of the intended early redemption and the Issuer shall pay all registered Bondholders in accordance with the Terms and Conditions and this Agreement.

Early Redemption due to Change of Control

Upon the occurrence of a Change of Control, Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds may require the Issuer to repurchase all (but not some) of the Bonds, at a redemption price equal to the principal amount of the Bonds being redeemed and accrued interest thereon (the "Change of Control Redemption Price"). Within fifteen (15) days following a Change of Control, the Issuer shall notify the Trustee, which shall, in turn, notify the Bondholders (i) that a Change of Control has occurred and that the Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds may require the Issuer to repurchase all (but not some) of the Bonds at the Change of Control Redemption Price, and (ii) the date set by the Issuer for such repurchase (which shall not be earlier than forty-five (45) days and no later than sixty (60) days from the date notice is received by the Trustee). The decision of the Bondholders holding at least two-thirds (2/3) of the outstanding principal amount of the Bonds shall be conclusive and binding upon all the Bondholders.

Change of Control for purposes of this Section shall mean San Miguel Corporation (and/or its Affiliates) ceasing to, whether directly or indirectly, have an aggregate economic interest of more than 50.0% in the Issuer or ceasing to have control over the Issuer. For purposes of this definition, "Affiliate" means, with respect to San Miguel Corporation, any person that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, San Miguel Corporation. In this context, "control" means the possession, directly or indirectly, of the power to direct, or cause the direction of, the management and policies of such person, whether through ownership of voting shares, by contract, or otherwise.

Early Redemption Option

The Issuer may (but shall not be obliged to) redeem all (and not a part only) of any series of the outstanding Bonds on the following relevant dates (each date, an "**Early Redemption Option Date**").

The amount payable to the Bondholders in respect of such redemptions shall be calculated based on the principal amount of the Bonds being redeemed, as the sum of (i) the accrued interest on the Bonds computed from the last Interest Payment Date up to the relevant Early Redemption Option Date; and (ii) the product of the principal amount and the applicable Early Redemption Price in accordance with the following schedule:

Early Redemption Option Date on Series A Bonds	**Early Redemption Price**
Third (3rd) anniversary from Issue Date	101.0%
Fourth (4th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series B Bonds	**Early Redemption Price**
Fifth (5th) anniversary from Issue Date	101.0%
Sixth (6th) anniversary from Issue Date	100.5%

Early Redemption Option Date on Series C Bonds	**Early Redemption Price**
Seventh anniversary (7th) from Issue Date	102.0%
Eight (8th) anniversary from Issue Date	101.0%
Ninth (9th) anniversary from Issue Date	100.5%

The Issuer shall give not more than 60 days' or less than 30 days' prior written notice of its intention to redeem the Bonds to the Trustee, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds at the Optional Redemption Date stated in such notice.

Purchase and Cancellation

The Issuer may purchase the Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, without any obligation to make pro rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds in the PDEx, the Issuer shall disclose any such transaction in accordance with the applicable PDEx disclosure rules.

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders through the Paying Agent. The Paying Agent shall credit the proper amounts received from the Issuer via RTGS, net of final taxes and fees (if any), to the Philippine Peso cash account maintained and designated by or on behalf of the Bondholder in his/her Application to Purchase. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Issuer shall ensure that so long as any of the Bonds remain outstanding, there shall at all times be a Paying Agent for purpose of disbursing payments on the Bonds.

Taxation

Under the Philippine law prevailing as of the Issue Date, interest income on the Bonds is subject to a final withholding tax at rates between 20% and 30% depending on the tax status of the relevant Bondholder under relevant law, regulation, or tax treaty. Except for such final withholding tax and as otherwise provided below, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

(a) Income tax on any gain by a holder of the Bonds realized from the sale, exchange or retirement of the said Bonds;

(b) The applicable final withholding tax on interest earned on the Bonds prescribed under the Tax Reform Act of 1997, as amended and its implementing rules and regulations as may be in effect from time to time. Interest income on the Bonds is subject to a final withholding tax at rates between 20% and 30%, depending on the tax status of the relevant Bondholder and subject to its claim of tax exemption or preferential withholding tax rates under relevant law, regulation or tax treaty;

(c) Gross Receipts Tax under Section 121 of the National Internal Revenue Code (the "**Tax Code**");

(d) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

(e) Value Added Tax ("**VAT**") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Any documentary stamp tax for the primary issue of the Bonds and the execution of the Issue Management and Underwriting Agreement, Trust Agreement, and the RPAA, if any, shall be for the account of the Issuer.

FINANCIAL COVENANT

The Issuer may Incur Indebtedness if on the Transaction Date, after giving effect to the Incurrence of such Indebtedness, but not giving any effect to the receipt or application of proceeds therefrom, the Leverage Ratio is not more than 5.5x.

In the determination of any particular amount of Indebtedness in connection with Financial Covenant, Guarantees, Security Interests or obligations with respect to letters of credit supporting Indebtedness otherwise included in the determination of such particular amount shall not be included.

NEGATIVE PLEDGE

Until redemption or payment in full of the aggregate outstanding principal amount of the Bonds, the Company will not and will ensure that none of its Material Subsidiaries will, without the prior written consent of the Majority Bondholders, create or have outstanding any Security Interest upon or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Company or any of the Material Subsidiaries to secure any Indebtedness unless the Company, in the case of the creation of the Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

i. All amounts payable by it under the Bonds are secured by the Security Interest equally and ratably with the relevant Indebtedness to the satisfaction of the Majority Bondholders; or

ii. Such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided to the satisfaction of the Majority Bondholders;

provided, that the foregoing restriction shall not apply to any Permitted Security Interest.

For purposes of the Financial Covenant and Negative Pledge Sections, the following defined terms shall have the respective meanings set forth below:

Asset Sale means any sale, transfer or other disposition (including by way of merger, consolidation or sale and leaseback transaction and including any sale or issuance of the Capital Stock of any of the Material Subsidiaries) in one transaction or a series of related transactions by the Company or any of the Material Subsidiaries to any person other than the Company or any of the Material Subsidiaries of:

(a) any capital stock of a Principal Subsidiary;

(b) any of its rights under an IPPA Agreement; or

(c) any of its property or assets excluding proceeds from the issuance of Capital Stock through an initial public offering or any other public offering or private placement,

and which is not a merger, provided that Asset Sale shall not include the following (the “**Permitted Asset Sale**”):

(i) sales, transfers or other dispositions of inventory in the ordinary course of business and the consideration received is at least equal to the Fair Market Value of the assets sold or disposed of;

(ii) sales, transfers or other dispositions of assets with a Fair Market Value which, when aggregated with the Fair Market Value of all other assets which are the subject of any sale, transfer or other disposition, does not exceed ₱1,500,000,000 in any transaction or series of related transactions;

(iii) any sale, transfer, assignment or other disposition of any inventory or property with a Fair Market Value not in excess of ₱50,000,000 to an employee of the Company in any transaction or series of related transactions under an employee benefit plan approved by the Board of Directors and in effect from time to time;

(iv) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or any of the Material Subsidiaries;

(v) any sale, transfer or other disposition of assets to the Company or a wholly owned Material Subsidiary;

(vi) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Security Interest; and

(vii) any sale transfer or other disposition of any Capital Stock of Strategic Power Devt. Corp. or any of its assets (including its rights under an IPPA Agreement).

Capital Stock means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the date of this Agreement or issued thereafter, including, without limitation, all Common Stock and preferred stock.

Commodities Agreement means any forward, option or futures contract or other similar agreement or arrangement designed to protect against fluctuations in the price of fuel or electricity used by the Company or any of the Material Subsidiaries in its operations.

Common Stock means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of this Agreement, and include, without limitation, all series and classes of such common stock or ordinary shares.

Consolidated EBITDA means, for any period, the consolidated net income of the Company (excluding items between any or all of the Company and its subsidiaries): (a) before any provision on account of taxation; (b) before any interest, commission, discounts, other fees or foreign exchange gains or losses incurred or payable, received or receivable or realized by the Company or any of its subsidiaries in respect of Indebtedness of the Group; (c) before any item treated as exceptional or extraordinary items; (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets; (e) excluding income attributable to or generated by Ring-Fenced Subsidiaries; and (f) after deducting any payments (including principal and interest) under the IPPA Agreements, and so that no amount shall be included or excluded more than once and all as determined on a consolidated basis for the Company and its subsidiaries in conformity with the PFRS.

Consolidated Net Total Debt means at any time the Consolidated Total Debt less the aggregate amount at that time of all cash and temporary cash investment (on a consolidated basis) to which the Company or any of its subsidiaries is beneficially entitled at that time and which is not subject to any security interest.

Consolidated Total Debt means at any time the aggregate amount of all obligations of the Company and its Subsidiaries for or in respect of Indebtedness but excluding; (a) any such obligation to the Company and/or any of its Subsidiaries (and so that no amount shall be included or excluded more than once); (b) the aggregate of the capitalized lease obligations payable to PSALM under the IPPA Agreements and (c) all Project Debt.

Currency Agreement means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

Debt means the sum of interest-bearing debt of the Issuer, as reflected in its financial statements.

Disqualified Stock means any class or series of Capital Stock of any Person that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or otherwise is (a) required to be redeemed prior to the Maturity Date of the Series C Bonds, (b) redeemable at the option of the holder of such class or series of Capital Stock or any other person at any time prior to the Maturity Date of the Series C Bonds or (c) convertible into or exchangeable for Capital Stock referred to in paragraphs (a) or (b) above or Indebtedness having a scheduled maturity prior to the Maturity Date of the Series C Bonds; provided that any class or series of debt securities or preferred stock convertible or exchangeable into Common Stock, the terms of which allow for a cash payment in lieu of Common Stock upon conversion or exchange in the event that the issue or distribution of Common Stock to the holder thereof will cause such Person to violate foreign ownership regulations applicable in the Philippines from time to time, shall not constitute Disqualified Stock provided that any such cash payments are made with the proceeds of the sale of equity interests of such Person to an unaffiliated Person.

Fair Market Value means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a board resolution.

Four Quarterly Period means, in respect of any date, the then most recent four quarterly periods prior to such date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available.

Group means, at any time, the Company and its Subsidiaries at such time.

Guarantee means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part). The term Guarantee used as a verb has a corresponding meaning.

Hedging Obligation of any Person means the obligations of such Person pursuant to any Currency Agreement or Interest Rate Agreement or Commodities Agreement.

Incur means with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; provided that (a) any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Issuer will be deemed to be Incurred by such Subsidiary of the Issuer at the time it becomes a Subsidiary of the Issuer and (b) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms Incurrence, Incurred, and Incurring have meanings correlative with the foregoing.

Indebtedness of any Person means any indebtedness for or in respect of:

(a) all obligations of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business;

(d) all obligations of such Person as lessee which are capitalized in accordance with PFRS;

(e) all Indebtedness of others secured by a Security Interest on any asset of such Person;

(f) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(g) all obligations in respect of any Disqualified Stock, provided that such Disqualified Stock (i) falls within paragraph (a) of the definition of "Disqualified Stock" or (ii) falls within paragraph (b) of the definition of "Disqualified Stock" and the Person entitled to exercise the option to require redemption of such Disqualified Stock has exercised or given notice to exercise such option or (iii) falls within paragraph (c) of the definition of "Disqualified Stock" and has been converted into Indebtedness having a scheduled maturity prior to the Maturity Date of the Series C Bonds;

(h) all Indebtedness of others Guaranteed by such Person;

(i) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit, Guarantee or similar instrument; and

(j) any interest rate swap, currency swap, forward foreign exchange transaction, cap, floor, collar or option transaction or any other treasury transaction or any combination thereof or any other transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and the amount of Indebtedness in relation to any such transaction described in this paragraph (j) shall be calculated by reference to the mark-to-market valuation of such transaction at the relevant time),

and so that where the amount of Indebtedness falls to be calculated, no amount shall be taken into account more than once in the same calculation and, where the amount is to be calculated on a consolidated basis in respect of a corporate group, monies borrowed or raised, or other indebtedness, as between members of such group shall be excluded.

Interest Rate Agreement means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

Investment means:

a) any direct or indirect advance, loan or other extension of credit to another Person;

b) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

c) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

d) any Guarantee of any obligation of another Person.

The acquisition by the Company or a Material Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Material Subsidiary in such third Person.

Leverage Ratio means, on any Transaction Date, the ratio of (x) Consolidated Net Total Debt at such Transaction Date to (y) Consolidated EBITDA for the then most recent Four Quarterly Period prior to such Transaction Date; provided, however, that if, as of such date of determination:

(a) the Issuer or any of its Subsidiaries has Incurred any Indebtedness since the beginning of the Four Quarterly Period that remains outstanding, Consolidated EBITDA and Consolidated Net Total Debt for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of the Four Quarterly Period;

(b) the Issuer or any of its Subsidiaries has repaid, repurchased, defeased or otherwise discharged any Indebtedness or amount payable under an IPPA Agreement prior to its due date since the beginning of the Four Quarterly Period (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced), Consolidated EBITDA and Consolidated Net Total Debt for the Four Quarterly Period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of the Four Quarterly Period;

(c) since the beginning of the Four Quarterly Period, the Issuer or any of its Subsidiaries has made an Asset Sale (including an Asset Sale of any Capital Stock of a Principal Subsidiary), Consolidated EBITDA for the Four Quarterly Period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable thereto for the Four Quarterly Period, or increased by an amount equal to Consolidated EBITDA (if negative) attributable thereto for the Four Quarterly Period and Consolidated Net Total Debt for the Four Quarterly Period shall be reduced by an amount equal to the Consolidated Net Total Debt directly attributable to any Indebtedness of the Issuer or any of its Subsidiaries repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and its continuing Subsidiaries in connection with such Asset Sale for the Four Quarterly Period (or, if the Capital Stock of any Subsidiary of the Issuer is sold, the Consolidated Net Total Debt for such period directly attributable to the Indebtedness of such Subsidiary to the extent the Issuer and its continuing Subsidiaries are no longer liable for such Indebtedness after such sale);

(d) since the beginning of the Four Quarterly Period, the Issuer or any of its Subsidiaries (by merger, consolidation or otherwise) has made an Investment in any Person that thereby becomes a Subsidiary of the Issuer, or otherwise has acquired any company, any business, or any group of assets or any set of rights constituting or relating to an operating unit of a business, including any such Investment or acquisition occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for the Four Quarterly Period will be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of the Four Quarterly Period; and

(e) since the beginning of the Four Quarterly Period, any Person (that became a Subsidiary of the Issuer or was merged or otherwise combined with or into the Issuer or any of its Subsidiaries since the beginning of the Four Quarterly Period) will have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (c) or (d) above if made by the Issuer or any of its Subsidiaries since the beginning of the Four Quarterly Period, Consolidated EBITDA for the Four Quarterly Period will be calculated after giving pro forma effect thereto as if such Asset Sale, Investment or acquisition of assets occurred on the first date of the Four Quarterly Period. For purposes of this definition, whenever a pro forma effect is to be given to any transaction or calculation under this definition, the pro forma calculations will be as determined in good faith by a responsible financial or accounting officer of the Issuer.

Material Subsidiary means at any time:

(a) any of the Principal Subsidiaries; or

(b) a Subsidiary of the Company:

   (i) whose net income (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose Total Assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Company and its Subsidiaries relate, are equal to) not less than 25% of the consolidated net income of the Company and its Subsidiaries taken as a whole, or, as the case may be, 25% of the consolidated Total Assets, of the Company and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Company and its Subsidiaries, provided that (A) in the case of a Subsidiary of the Company acquired after the end of the financial period to which the then latest audited consolidated accounts of the Company and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Company and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Company and (B) if the then latest audited consolidated accounts of the Company and its Subsidiaries show a net loss for the relevant financial period then there shall be substituted for the words "net income" the words "gross revenues" for the purpose of this definition;

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Company which immediately prior to such transfer is a Material Subsidiary of the Company, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary of the Company and the transferee Subsidiary shall cease to be a Material Subsidiary of the Company pursuant to this sub-paragraph on the date on which the consolidated accounts of the Company and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary of the Company on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-paragraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Company and its Subsidiaries relate, generate net income equal to) not less than 25% of the consolidated net income of the Company and its Subsidiaries taken as a whole, or represent (or, in the case aforesaid, are equal to) not less than 25% of the consolidated Total Assets of the Company and its Subsidiaries taken as a whole, all as calculated as referred to in sub-paragraph (i) above, provided that the transferor Subsidiary (if a Material Subsidiary of the Company) shall upon such transfer forthwith cease to be a Material Subsidiary of the Company unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net income equal to) not less than 25% of the consolidated net income of the Company and its Subsidiaries taken as a whole, or its assets represent (or, in the case aforesaid, are equal to) not less than 25% of the consolidated Total Assets of the Company and its Subsidiaries taken as a whole, all as calculated as referred to in sub-paragraph (i) above, and the transferee Subsidiary shall cease to be a Material Subsidiary of the Company pursuant to this sub-paragraph on the date on which the consolidated accounts of the Company and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary of the Company on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-paragraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

Permitted Security Interest means:

(a) any Security Interest existing as of the date of the Trust Agreement

(b) any preference or priority granted over the payments under the IPPA Agreements pursuant to Article 2244(14) of the Civil Code of the Philippines;

(c) any Security Interest over or affecting any asset of any company which becomes a member of the Group after the date of this Agreement, where the Security Interest is created prior to the date on which that company becomes a member of the Group;

(d) to the extent notified to the Lenders in writing, any Security Interest created by a Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary;

(e) to the extent notified to the Lenders in writing, Security Interest created over shares in any Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary; and

(f) any Security Interest upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries to secure:

   (i) any Indebtedness which (subject to (ii) of this definition below) is not Public Debt; or

   (ii) any Public Debt (A) which (I) by its terms does not provide that the Company or any Material Subsidiary is an obligor, (II) by its terms does not provide that a Guarantee or credit support of any kind is given by the Company or any of the Material Subsidiaries and (III) does not have the legal effect of providing recourse against any of the assets of the Company or any of the Material Subsidiaries and (B) no default with respect to which would permit upon notice, lapse of time or both any holders of any other Indebtedness of the Company or any of the Material Subsidiaries to declare a default on such other Indebtedness or cause the payment of such other Indebtedness to be accelerated or payable prior to its stated maturity,

   which, in either case (either alone or when aggregated with all other present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries upon, or with respect to, which Security Interests are subsisting), does not exceed 15% of the consolidated Total Assets of the Company and its Subsidiaries taken as a whole.

(g) any extension, renewal, supplement, or replacement (or successive extensions, renewals, supplements, or replacements) in whole or in part of any Security Interest referred to in paragraphs (a), (b), (d), (e), and (f), or any Indebtedness secured thereby; provided that such extension, renewal, supplements, or replacement is limited to all or any part of the same property that secured the Security Interest extended, renewed, supplemented, or replaced (plus any construction, repair, or improvement on such property) and shall secure no larger amount of financial Indebtedness than that existing at the time of such extension, renewal, supplement, or replacement.

(h) Security Interest created with the prior written consent of the Majority Bondholders

Person means any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization.

Principal Subsidiaries means any of South Premiere Power Corp. and San Miguel Energy Corporation.

Project Debt means Indebtedness incurred by a Ring-Fenced Subsidiary in relation to project finance in respect of which there is no recourse to the Company or any other member of the group, and in respect of which neither the Company nor any other member of the group has any actual or contingent liability of any nature, whether as principal, guarantor, surety or otherwise, except in respect of any security interest granted by the Company or any member of the group over its shares in a Ring-Fenced Subsidiary.

Public Debt means any present or future indebtedness (whether being principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and any Guarantee or indemnity of any such indebtedness.

Ring-Fenced Subsidiary means any entity that satisfies the following conditions:

(a) such entity is a Subsidiary of the Company but not a (i) Material Subsidiary or (ii) Principal Subsidiary;

(b) such entity, to the extent directly owned by the Company or a member of the Group (other than another Ring-Fenced Subsidiary), is a limited liability company or corporation organized and existing under the laws of the Philippines;

(c) the Company has delivered a written notification to the Trustee designating such entity as a Ring-Fenced Subsidiary;

(d) no member of the Group (other than that Ring-Fenced Subsidiary) shall be contingently liable for any Indebtedness of such entity or its Subsidiaries, except in respect of the granting by a member of the Group of Security Interest over its shares in such entity or such entity's Subsidiaries; and

(e) all transactions conducted between any member of the Group and such entity or its Subsidiaries must be on an arm's length basis and on normal commercial terms,

and each Subsidiary of any such entity shall also be a Ring-Fenced Subsidiary.

Security Interest means any (a) mortgage, charge, pledge, lien or other security interest or encumbrance or other preferential arrangement of any kind, including, without limitation, any preference or priority under Article 2244 (14) of the Civil Code of the Philippines, as the same may be amended from time to time, in each case, to the extent securing payment or performance of an Indebtedness prior to any general creditor of such person; (b) and the right of a vendor, less or, or similar party under any conditional sales agreement, capital lease or other title retention agreement, any other right of or arrangement with any creditor to have its claims satisfied out of any property or assets, or the proceeds therefrom, prior to any general creditor of the owner thereof.

Subsidiary means, with respect to any Person, more than 50% of the voting power of the outstanding voting stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be controlled by another means that (i) the controlling entity (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that controlled company or otherwise controls or has a power to control the affairs and policies of that controlled company and control shall be construed accordingly, and (ii) the controlling entity identifies said controlled company as a subsidiary in its latest available consolidated financial statements.

Total Assets means, with respect to any specified Person for any period, the aggregate total current assets and total non-current assets for such period, on a consolidated basis, determined in conformity with PFRS; provided that any foreign currency denominated deposits secured for the purposes of Hedging Obligations shall be excluded in computing Total Assets (without duplication).

Transaction Date means with respect to the Incurrence of any Indebtedness, the date such Indebtedness is incurred.

PENALTY INTEREST

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, or otherwise, is not paid on the relevant due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay a penalty fee on the defaulted amount(s) at the rate of twelve percent (12%) per annum (the "Penalty Interest") from the time the amount fell due until it is fully paid.

GOVERNING LAW

The Bonds and the Trust Agreement are governed by and are construed in accordance with Philippine law. Any dispute arising out of or relating to the Terms and Conditions shall be brought before the proper courts of Mandaluyong City or Makati City, to the exclusion of all other courts and venues of equal and competent jurisdiction.

DEFAULT

Events of Default

The Issuer shall be considered in default under the Bonds and the Trust Agreement in case any of the following events (each an "Event of Default") shall occur and is continuing:

(a) the Issuer defaults in the payment when due of any amount payable under this Agreement, the Bonds, or any other Transaction Document unless such failure arises solely as a result of an administrative or technical error or a Disruption Event and payment is made within three (3) Business Days after the date such payment is due. For purposes of this section, "Disruption Event" means either or both of: (i) a material disruption to those payment communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the transactions contemplated by this Agreement to be carried out which disruption is not caused by, and is beyond the control of, any of the parties; or (ii) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that, or any other party from: (1) performing its payment obligations under this Agreement; or (2) communicating with other parties in accordance with the terms of this Agreement;

(b) the Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Transaction Documents (other than by reason of paragraph (a) above), and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of 30 days (or such longer curing period granted to the Issuer by the Majority Bondholders) from the date after written notice thereof shall have been given to the Issuer by the Trustee;

(c) any representation or warranty which is made or deemed to be made by the Issuer or any of the Issuer's directors or officers herein or otherwise in connection herewith, or in any certificate delivered by the Issuer hereunder or in connection herewith, shall prove to have been untrue or incorrect in any material respect as of the time it was made or deemed to have been made;

(d) the Company or any of its Subsidiaries defaults in the performance or observance of, or compliance with, any one or more of its obligations under a Material Agreement and such default shall not have been remedied as provided therein and such event might reasonably be expected to have a Material Adverse Effect;

(e) a Material Agreement is terminated, repudiated, cancelled or revoked and such event might reasonably be expected to have a Material Adverse Effect;

(f) a Material Agreement or any provision thereof is or becomes invalid, illegal or unenforceable and there is a Material Adverse Effect as a result thereof which has not been remedied within thirty (30) days of the occurrence thereof;

(g) any Indebtedness of the Issuer, whether singly or in the aggregate, in excess of One Billion Two Hundred Fifty Million Pesos (₱1,250,000,000.00) or its equivalent in other currencies is not paid on its due date or within any applicable grace period or is declared to be due and payable prior to its stated date of payment (except where liability for payment of that Indebtedness is being contested in good faith by appropriate means);

(h) any act, deed or judicial or administrative proceedings in the nature of an expropriation, sequestration, confiscation, nationalization, intervention, acquisition, seizure, or condemnation of, or with respect to, the business and operations of the Issuer or its property or assets, shall be undertaken or instituted by any Governmental Authority, present or future, unless such act, deed or proceedings are otherwise contested in good faith by the Issuer or will not have a Material Adverse Effect;

(i) a decree or order by a court or other Governmental Authority having jurisdiction over the premises is entered without the consent or application of the Issuer:

(1) adjudging the Issuer bankrupt or insolvent;

(2) approving a petition seeking a suspension of payments by or a reorganization of the Issuer under any applicable bankruptcy, insolvency or reorganization law;

(3) appointing a receiver, liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of all or substantially all of the business or assets of the Issuer;

(4) providing for the winding up or liquidation of the affairs of the Issuer;

(5) with a view to the rehabilitation, administration, liquidation, winding-up or dissolution of the Issuer; or

(6) taking other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (5) above (inclusive);

Provided, that the issuance of any such decree or order shall not be an Event of Default if the same shall have been dismissed or stayed by injunction or otherwise within ninety (90) days from issuance thereof;

(j) the Issuer:

(1) institutes voluntary proceedings to be adjudicated bankrupt or insolvent or consents to the filing of a bankruptcy or insolvency proceeding against it;

(2) files a petition seeking a suspension of payments by it or its reorganization under any applicable bankruptcy, insolvency or reorganization law or consents to the filing of any such petition;

(3) seeks or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets;

(4) makes an assignment for the benefit of its creditors or admits in writing its inability to pay its debts generally as they become due;

(5) files a petition seeking the winding up or liquidation of its affairs or consents to the filing of any such petition;

(6) takes any other step with a view to its rehabilitation, administration, liquidation, winding-up or dissolution or a suspension of payments by it; or

(7) takes other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (6) above (inclusive);

(k) final and executory judgment(s) or order(s) are rendered by a court of competent jurisdiction against the Issuer or its properties or assets for the payment of money which will have a Material Adverse Effect and such judgment or order shall continue unsatisfied or undischarged after ninety (90) days;

(l) it becomes unlawful for the Issuer to perform any of its obligations under the Transaction Documents;

(m) the Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily for a period of thirty (30) consecutive days except in cases of strike or lockout when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, *provided* that in any such event of strikes, lockouts or closure due to force majeure events, there is no Material Adverse Effect;

(n) any event or circumstance that will have a Material Adverse Effect has occurred; and

(o) any Governmental Approval now or hereafter necessary to enable the Issuer to comply with its obligations under any Material Agreement to which it is party is not issued when required or is revoked, cancelled, withdrawn or withheld, not renewed, modified or amended or otherwise ceases to remain in full force and effect and such cancellation, withdrawal withholding, non-renewal, modification or amendment has a Material Adverse Effect; provided, that if the same is capable of being remedied, it shall not be an Event of Default if remedied within ninety (90) days from occurrence thereof.

Wherein:

Applicable Law means any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirements or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority.

Governmental Approval means any authorization, consent, concession, grant, approval, right, franchise, privilege, registration, filing, certificate, license, permit or exemption from, by or with any Governmental Authority, whether given or withheld by express action or deemed given or withheld by failure to act within any specified time period.

Governmental Authority means the Philippine government or political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the Philippine government.

Majority Bondholders means, (a) with respect to matters relating only to the Series A Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series A Bonds, (b) with respect to matters relating only to the Series B Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series B Bonds, (c) with respect to matters relating only to the Series C Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Series C Bonds, and (d) with respect to matters affecting all Bonds, Bondholders representing more than fifty percent (50%) of the outstanding principal amount of the Bonds.

Material Adverse Effect means, in the reasonable opinion of the Majority Bondholders, acting in good faith and in consultation with the Issuer, a material adverse effect on (a) the ability of the Issuer to observe and comply with the provisions of and perform its financial obligations under the Bonds and the Transaction Documents; or (b) the validity or enforceability of the Bonds or any Transaction Document; or (c) the financial condition, business or operations of the Issuer taken as a whole.

Material Agreements means each of the IPPA Agreements, as may be amended or supplemented from time to time.

Application of Payments

Subject to the provisions of the Trust Agreement or the RPAA, any money collected by the Trustee from the Issuer upon a declaration of default and any other funds held by it shall be applied by the Trustee in the order of preference as follows:

(a) To the pro-rata payment to the Trustee, the Registrar and the Paying Agent of the reasonable and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable and documented expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Bonds.

(b) To the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest.

(c) To the payment of the principal amount of the Bonds then due and payable.

(d) The remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and interest or other sums payable under the Bonds will prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which the payment becomes due.

Remedies

All remedies conferred by the Trust Agreement upon the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants under the Trust Agreement.

No delay or omission by the Trustee or any Bondholder, to exercise any right or power arising from or on account of any default shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy provided under the Trust Agreement to the Trustee and Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Waiver

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders, upon the written request of the Issuer, to waive the application of the Events of Default and its consequences except for Events of Default (a), (h), (j), (k), (and (m) cannot be waived by the Bondholders. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all the Bondholders and upon all future holders and owners thereof.

Ability to File Suit

No Bondholder shall have any right by virtue or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer on account of principal or interest, or for the appointment of a receiver or Trustee, or for any other remedy hereunder, unless (i) such holder shall previously have given to the Trustee a written notice of default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds, and (ii) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such suit, action or proceeding in its own name, and (iii) the Trustee for 60 days after receipt of such notice and request shall have neglected or refused to institute any such suit, action or proceeding, and (iv) no directions inconsistent with such written request or rescission and annulment of a declaration of default by the Bondholders has been made.

No Bondholder shall have any right in any manner whatsoever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner provided under the Trust Agreement and for the equal, ratable and common benefit of all Bondholders.

TRUSTEE

Appointment of Trustee

The Issuer has appointed Philippine National Bank – Trust Banking Group as Trustee for and on behalf and benefit of the Bondholders, in connection with the distribution and sale by the Issuer of the Bonds.

Duties and Responsibilities of the Trustee

The Trustee shall be responsible for performing, among others, the following duties for the benefit of the Bondholders, including but not limited to:

(a) Monitor compliance by the Issuer with its obligations under the Trust Agreement;

(b) Report regularly to Bondholders any non-compliance by the Issuer with the Trust Agreement and any developments with respect to the Issuer that adversely affect the interest of the Bondholders and advise the Bondholders of the course of action that they may take to protect their interest; and

(c) Act on behalf of the Bondholders including calling for and/or attending meetings of the Bondholders.

Notices to Trustee

All documents required to be submitted to the Trustee and all other notices, requests and other communications must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) or emailed to the parties at the following addresses, facsimile numbers or email addresses; and addressed to the individuals named below:

PHILIPPINE NATIONAL BANK – TRUST BANKING GROUP
3/F PNB Financial Center, President Diosdado Macapagal Blvd. 1300 Pasay City,
Metro Manila, Philippines
Attention: Mr. Jaycee B. Rivera
Telephone: (632) 573 4655/4665/4575
Email: riverajb@pnb.com.ph/ jolejoleje@pnb.com.ph / evangelistraahr@pnb.com.ph

All such notices, requests and other communications will: (i) if delivered personally to the address as provided above, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided above, be deemed given upon receipt; and (iii) if delivered by mail or email in the manner described above to the address as provided above, be deemed given upon receipt and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other person on behalf of such individual to whom a copy of such notice, request or other communication is to be delivered). The Trustee may from time to time change its address, facsimile number or other information for the purpose of notices hereunder by giving notice specifying such change.

Resignation and Change of Trustee

The Trustee may resign at any time by giving the Issuer at least 90 calendar days' prior written notice to that effect. Upon receipt of such notice of resignation, the Issuer shall immediately appoint a replacement trustee (the "Replacement Trustee") by written instrument in duplicate, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the Replacement Trustee. If no Replacement Trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Trustee or any Bondholder who has been a bona fide holder for at least six (6) months may petition any court of competent jurisdiction for the appointment of a Replacement Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a Replacement Trustee.

The Issuer may, subject to the occurrence of certain events as specified in the Trust Agreement, within 30 days, remove the Trustee and appoint a Replacement Trustee, by written instrument in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the Replacement Trustee. If the Issuer fails to remove the Trustee and appoint a Replacement Trustee, any Bondholder may, on behalf of himself and all other Bondholders, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a Replacement Trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a Replacement Trustee.

The Majority Bondholders may at any time remove for cause the Trustee and with the consent of the Issuer, appoint a Replacement Trustee in accordance with the terms of the Trust Agreement, without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.

Any resignation or removal of the Trustee and the appointment of a Replacement Trustee pursuant to any of the provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the Replacement Trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such Replacement Trustee is qualified and appointed, the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the Replacement Trustee promptly upon the appointment thereof by SMC Global Power.

Within ten (10) days from the effectiveness of the resignation or removal of the outgoing trustee and the appointment of the Replacement Trustee, the outgoing trustee shall transfer and turn over to the Replacement Trustee, and shall make an accounting of, all the assets, documents or instruments which are in the custody of the outgoing trustee pursuant to the Trust Agreement, if any.

Replacement Trustee

The Replacement Trustee shall execute, acknowledge and deliver to the Issuer and to the outgoing Trustee an instrument accepting his/her appointment, and thereupon the resignation or removal of the outgoing Trustee shall become effective and the Replacement Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor under the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the Replacement Trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the Replacement Trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such Replacement Trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such Replacement Trustee all such rights, powers and duties.

Upon acceptance of appointment by the Replacement Trustee, the Issuer shall notify the Bondholders in writing and/or by publication in a newspaper of general circulation in Metro Manila, Philippines of the succession of such Replacement Trustee to the duties of the outgoing Trustee. If the Issuer fails to notify the Bondholders within ten (10) days after acceptance of appointment by the Replacement Trustee, the latter shall cause the Bondholders to be so notified at the expense of the Issuer.

MEETING OF BONDHOLDERS

The Trustee may at any time call a meeting of the Bondholders, on its own accord or upon the written request of the Issuer or the Majority Bondholders, for purposes of taking any actions authorized under the Trust Agreement.

Notice of Meetings

Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than 45 days nor later than 15 days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Agreement. All reasonable and documented costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

Failure to Call a Meeting

The failure of the Trustee to call a meeting upon the written request of either the Issuer or the Majority Bondholders within three (3) days from such request shall entitle the requesting party to send the appropriate notice of Bondholders' meeting and the costs therefrom shall be charged to the account of the Trustee.

Quorum for Meetings

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

Procedure for Meetings

The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting.
Any meeting of the Bondholders may be adjourned from time to time for a period not to exceed in the aggregate one (1) year from the date for which the meeting shall have been originally called, and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person should be a registered holder of the Bonds as reflected in the Register of Bondholders or a person appointed by a public instrument in writing as proxy or agent by any such Bondholder (and, in case of corporate or institutional Bondholders, duly supported by the resolutions of its board of directors or equivalent body authorizing the appointment of the proxy or agent duly certified by its corporate secretary or an authorized officer) as of the date of the meeting. For avoidance of doubt, ₱5,000.00 is equal to one vote.

Voting Requirements

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum, except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders shall be binding upon all the Bondholders and the Trustee.

Action of the Bondholders

In cases where, pursuant to the Trust Agreement, the holders of a specified percentage of the aggregate outstanding principal amount of Bonds are allowed to take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the Bondholders of such specified percentage have joined such action may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance with the Trust Agreement; or (iii) a combination of such instruments and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder represents and warrants to the Trustee and to the Issuer that it has independently and, without reliance on the Trustee or the Issuer, made its own credit investigation and appraisal of the financial position and affairs of the Issuer on the basis of such documents and information it has deemed appropriate and that it has subscribed to the Bonds on the basis of such independent appraisal, and that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer.

Notices to Bondholders

Except where a specific mode of notification is provided for in the Issue Management and Underwriting Agreement, Trust Agreement, or the RPAA, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) by publication for at least once a week for two (2) consecutive weeks in at least two (2) newspapers of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. If notices to Bondholders shall be sent by mail or personal delivery, such notices shall be sent to the mailing address of the Bondholders as set forth in the Register of Bondholders All notices shall be deemed to have been received: (i) ten (10) days from posting, if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on date of last publication, if notice is made through publication; or (iv)

on date of delivery, for personal delivery.INTERESTS OF NAMED EXPERTS

LEGAL MATTERS

All legal issues relating to the issuance of the Bonds which are subject of this Offer shall be passed upon by SyCip Salazar Hernandez & Gatmaitan for the Joint Issue Managers, Joint Lead Underwriters and Bookrunners, and Picazo Buyco Tan Fider & Santos for the Company. SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos have no direct or indirect interest in SMC Global Power. SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos may, from time to time be engaged by SMC Global Power to advise in the transactions of the Company and perform legal services on the same basis that SyCip Salazar Hernandez & Gatmaitan and Picazo Buyco Tan Fider & Santos provide such services to its other clients.

INDEPENDENT AUDITORS

R.G. Manabat & Co., the independent auditors, audited the financial statements of the Company as of and for the years ended December 31, 2015, 2014 and 2013, which are all included in this Prospectus. R.G. Manabat & Co. has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

The named independent auditor has not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Company.

The aggregate fees billed by R.G. Manabat & Co. amounted to ₱3,550,000, ₱4,200,000 and ₱1,200,000 in 2015, 2014 and 2013, respectively. Said fees include compensation for audit services and other related services such as review and agreed-upon procedures. There were no fees paid for accounting, compliance, advisory, planning and any other form of tax. There were no other fees paid to the independent auditors other than for the above-described services.

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

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

DESCRIPTION OF BUSINESS

COMPANY OVERVIEW

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 2,903 MW of combined capacity as of December 31, 2015 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities in ERC Resolution No. 03, Series of 2015, SMC Global Power, through its IPPA and IPP subsidiaries, had a 17% market share of the power supply of the national grid, and a 22% market share of the Luzon grid, in each case as of December 31, 2015[3]. SMC Global Power entered the power industry in 2009 following the acquisition of IPPA rights in privatization auctions conducted by the Government. Under the IPPA business model, SMC Global Power, through its subsidiaries SMEC, SPDC and SPPC, gained the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the WESM.

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

In September 2013, SMC Global Power, through SPI, acquired 100% of the 140 MW Limay Cogeneration Plant from Petron Corporation. In November 2014, SMC Global Power, through its subsidiary PVEI, acquired a 60% stake in AHC, the owner and operator of the 218 MW AHEPP. As at December 31, 2015, the total capacity of SMC Global Power is 2,903 MW including the entire capacity of the AHEPP.

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

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

During the years ended December 31, 2013, 2014 and 2015, respectively, SMC Global Power, through its subsidiaries, sold 13,316 GWh, 14,891 GWh, and 14,714 GWh of power pursuant to offtake agreements and 2,847 GWh, 2,110 GWh, and 1,844 GWh of power through the WESM. In contrast, during the years ended December 31, 2013, 2014 and 2015, respectively, SMC Global Power, through its subsidiaries, purchased 517 GWh, 477 GWh, and 690 GWh of power from the WESM.

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[3] Market share is computed by dividing the total capacity of the Company (2,903,000 KW) with the installed generating capacity of Luzon grid or National grid (13,057,758 KW and 17,585,167 KW, respectively) from ERC Resolution No. 3 Series of 2015.

For the year ended December 31, 2015, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱77.5 billion, ₱1.8 billion and ₱5.5 billion, respectively, while as of December 31, 2015, SMC Global Power had total consolidated assets of ₱331.2 billion.

The experience of SMC Global Power, through its subsidiaries, in acting as an IPPA and its ownership of the Limay Cogeneration Plant and the AHEPP, have enabled SMC Global Power to gain expertise in the Philippine power generation industry. With this experience, SMC Global Power believes it has a strong platform to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity. SMC Global Power, as the project sponsor, initiated two greenfield power projects in July 2013 and October 2013 with the construction of the Davao Greenfield Power Plant and the Limay Greenfield Power Plant, respectively. SMC Global Power is considering the further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand.

With the increased development of greenfield power projects from 2016 onwards, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and -operated IPPs. In order to continue its strategic acquisitions of existing power generation capacity, SMC Global Power intends to participate in the bidding of selected NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework. SMC Global Power also intends to pursue vertical integration of its power business by expanding into businesses along the power sector value chain that complement its current power generation operations. Such vertical integration would encompass both upstream vertical integration (integration of power generation with fuel suppliers) and downstream vertical integration (integration of power generation with distribution and supply operations). SMC Global Power also intends to pursue downstream vertical integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. In August 2011, as part of the reorganization of the power-related assets of San Miguel Corporation, SMC Global Power acquired from San Miguel Corporation a 100% equity interest in SMELC, which holds an RES license from the ERC. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC, to enter into RSCs with Contestable Customers. SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. SMC Global Power expects that these assets will potentially serve as a source of coal fuel supply for its planned and contemplated greenfield power projects.

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

STRENGTHS OF THE COMPANY

Leading power company in the Philippines with a strong growth platform. SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines based on its combined capacity of 2,903 MW. The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns the 140 MW Limay Cogeneration Plant in Limay, Bataan and a 60% stake in AHC, the owner and operator of the 218 MW AHEPP. Based on the total installed capacity of the market, SMC Global Power, through its subsidiaries, on a contracted capacity basis for the Sual, San Roque and Ilijan Power Plants and with the full capacity of the Limay Cogeneration Plant and the AHEPP, has a 17% market share of the power supply of the national grid of the Philippines, and a 22% market share of the Luzon grid, in each case as of December 31, 2015, based on ERC Resolution No. 03, Series of 2015.

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

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

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

Stable and predictable cash flows underpinned by long-term offtake agreements. SMC Global Power, through its subsidiaries, sells power either through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. Revenue from bilateral contracts with offtakers contributed 85%, 89% and 92% of total revenue for the years ended December 31, 2013, 2014 and 2015, respectively. The majority of the combined capacity of SMC Global Power, through its subsidiaries, has bilateral contracts that cover the term of the IPPA Agreements.

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

Flexible and diversified power portfolio. SMC Global Power manages the capacity of a balanced portfolio of some of the newest and largest power plants in the Philippines, which benefit from diversified fuel sources. The IPPA Power Plants have an average age of 14 years. In terms of installed capacity in the Philippines, the Sual Power Plant is the largest coal-fired power plant, the San Roque Power Plant is one of the largest and newest hydro-electric power plants, and the Ilijan Power Plant is the largest natural gas-fired power plant.

The existing power portfolio of SMC Global Power consists of (i) IPPAs, covering coal-fired (Sual Power Plant through SMEC), which represents 34% of the capacity of SMC Global Power, hydro-powered (San Roque Power Plant through SPDC), which represents 12% of the capacity of SMC Global Power, and natural gas-fired (Ilijan Power Plant through SPI), which represents 41% of the capacity of SMC Global Power, (ii) the Limay Cogeneration Plant through SPI, which represents 5% of the capacity of SMC Global Power, and (iii) the AHEPP through AHC which represents 8% of the capacity of SMC Global Power, as of December 31, 2015. Power generated by the Sual and Ilijan Power Plants is primarily used as baseload supply, and sold to customers pursuant to offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates. Power generated by the Limay Cogeneration Plant is 100% sold to Petron Corporation.

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

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

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

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

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

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

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

SMC Global Power, through San Miguel Consolidated Power Corporation, SMC Consolidated Power Corporation and Limay Premiere Power Corp., is already in the construction stage for two greenfield power projects with 450 MW of generation capacity expected to be commissioned in 2016 and another 300 MW in 2017. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increased electricity demand.

BUSINESS STRATEGIES OF THE COMPANY

Optimize the generation capacity of its power portfolio. SMC Global Power and its subsidiaries intends to actively manage its sales and optimize the operations of its power plant portfolio in order to achieve a balanced mix of power sales through (1) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market, (2) sales through the WESM. This approach provides SMC Global Power with the certainty and predictability of sales from contracted sales while being able to capture sales upside from the WESM. The objective of SMC Global Power is to supply customers based on the least cost while dispatching according to the requirements of the IPPA Agreements, and to sell available excess energy of the IPPA Power Plants through the WESM at favorable prices. For the year ended December 31, 2015, sales volumes through bilateral arrangements compared to sales through the WESM for the Sual, San Roque, and Ilijan Power Plants were 93% to 7%, 54% to 46%, and 93% to 7%, respectively. For the Limay Cogeneration Plant, 100% of output is sold to Petron Corporation on a bilateral basis.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of the IPPA Power Plants to the WESM after delivering the contractual amounts required under its offtake agreements.

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

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

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

Vertically integrate complementary businesses. SMC Global Power intends to continue to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained an RES license through SMELC to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the retail electricity supplier license allows SMC Global Power through SMELC to enter into retail electricity supply agreements with Contestable Customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations. On the other hand, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao. If SMC Global Power is able to develop these assets and commence mining operations successfully, SMC Global Power through SMEC and its subsidiaries, expects these assets could potentially provide a source of coal fuel supply for its greenfield power projects. SMC Global Power believes that such vertical integration will provide it with a competitive advantage in the Philippine power market.

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

IPPA FRAMEWORK

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

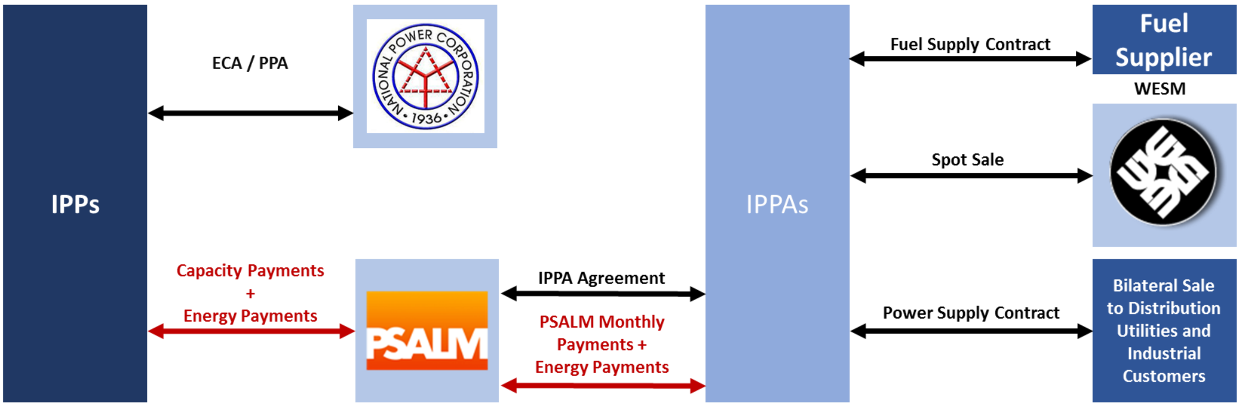
Under IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers and will, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to pay PSALM a fixed monthly payment and a variable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

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

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

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

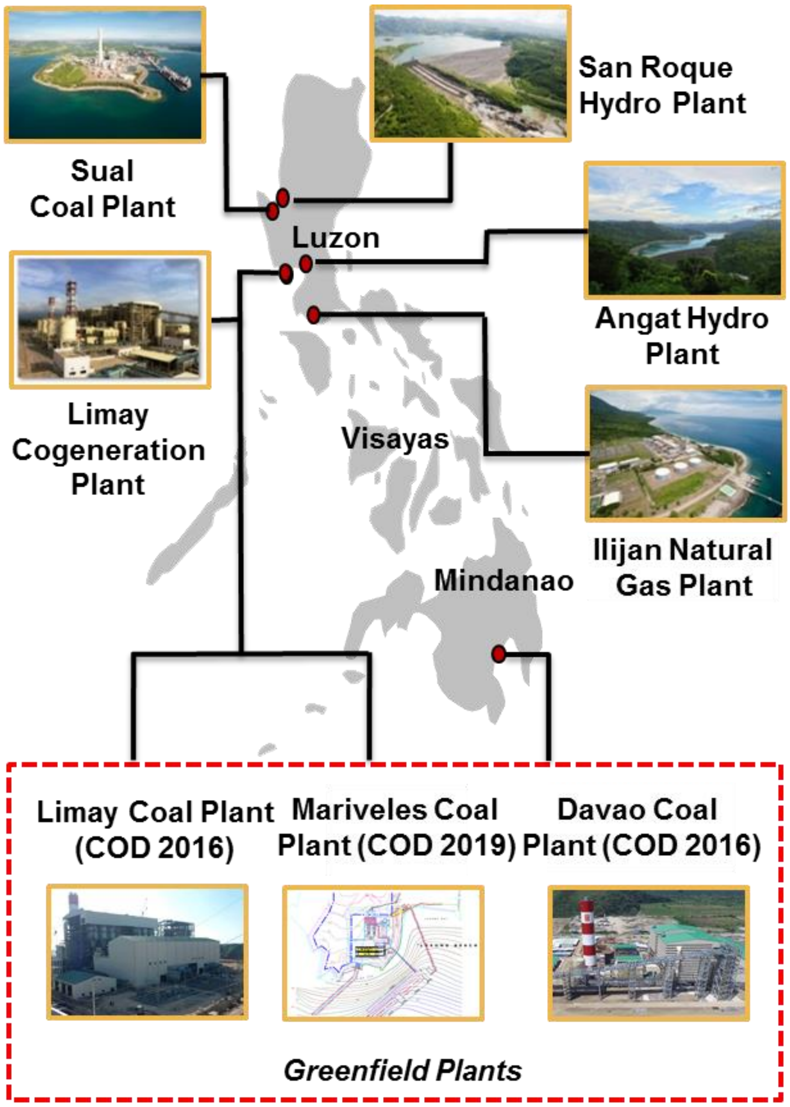
Set forth below is a general illustration of the IPPA framework.



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

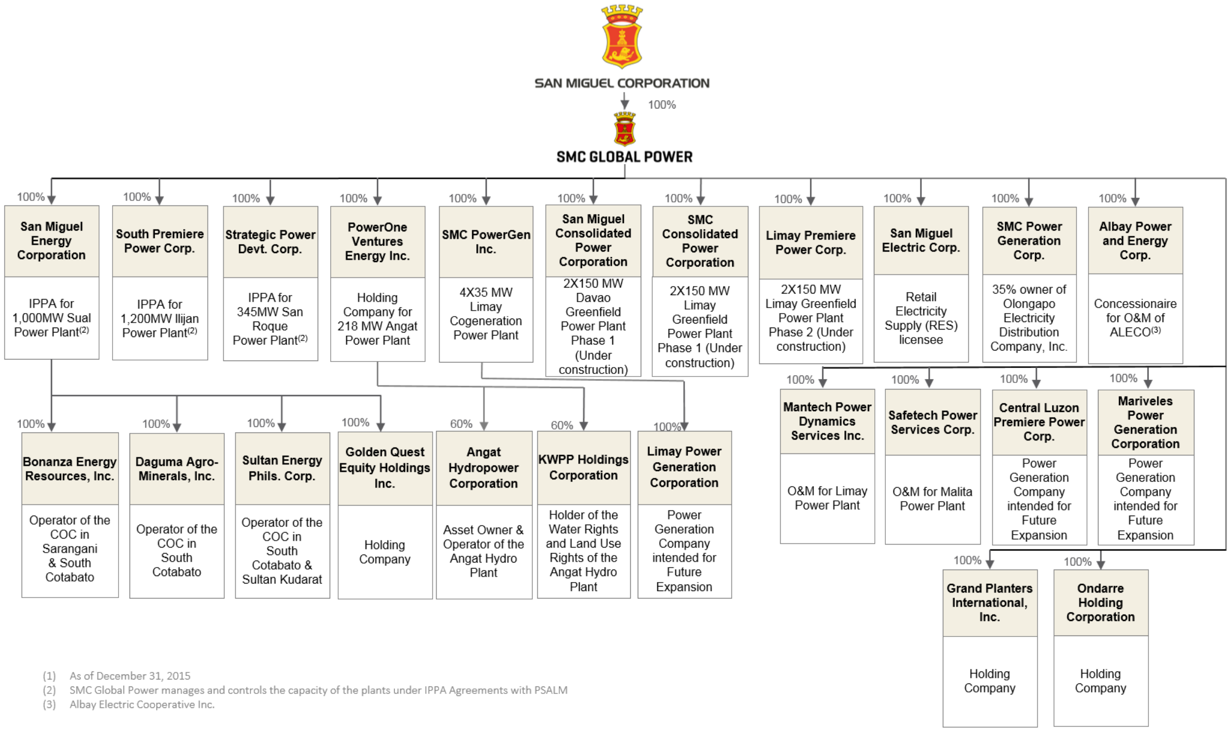
SMC GLOBAL POWER PORTFOLIO

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



CORPORATE STRUCTURE[1] / PROJECT CONSORTIUM

The chart below provides an overview of the ownership structure of SMC Global Power and its major operating subsidiaries as of December 31, 2015.



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

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

CORPORATE HISTORY AND MILESTONES

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

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

January 2008	SMC Global Power is incorporated under the name Global 5000 Investment Inc. (renamed SMC Global Power Holdings Corp. in October 2010)
January 2009	SMC Global Power acquires a 6.13% equity interest in Meralco, which was eventually sold in December 2013.
November 2009	A San Miguel Corporation subsidiary, SMEC, becomes the IPPA for the Sual Power Plant.

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

	concessionaire for the rehabilitation, operations and maintenance of ALECO.
	SMC Global Power, through SPI (a wholly owned subsidiary), acquires the 140 MW Limay Cogeneration Plant from Petron Corporation.
	SMC Global Power agreed to sell its 6.13% interest in Meralco. The sale was completed in March 2014.
October 2013	Groundbreaking of the 2 x 150 MW Limay Greenfield Power Plant.
February 2014	Start of APEC's concession of ALECO's distribution franchise.
November 2014	SMC Global Power acquired 60% of AHC, the owner and operator of the AHEPP.
July 2015	Groundbreaking of the AHEPP rehabilitation.

IPPA POWER PLANTS

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

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Subsidiary	San Miguel Energy Corporation	Strategic Power Devt. Corp.	South Premiere Power Corp.
IPPA Acquisition Date	11/2009	3/2010	9/2010
Plant Commercial Operation Date	1999	2003	2002
Ownership	Marubeni Corporation, Tokyo Electric Power Corporation(1)	Marubeni Corporation, Kansai Electric Company Ltd.(3)	Korea Electric Power, Corporation, Mitsubishi Corporation, TeaM Energy(2)
Installed Capacity (MW)	2 x 647	3 x 137	2 x 635.5
Net Contracted Capacity (MW)	1,000(4)	345(5)	1,200
Fuel	Coal	Hydro-electric	Natural Gas
Fuel Supply	PT Bukit Asam (Persero) TBK, Glencore International AG, PT Trubaindo Coal Mining, Noble Resources International Pte Ltd., Vitol Asia Pte. Ltd., PT Kaltim Prima Coal, Avra Commodities Pte. Ltd.	N/A	Camago-Malampaya Gas Fields (through NPC/PSALM)
Market	93% bilateral contract(6)	46% WESM	93% bilateral contract(7)

	Plant Name		
	Sual	San Roque	Ilijan
Net Capacity Factor (%)			
2014	75%	23%	82%
2015	69%	35%	71%
Availability factor (%)			
2014	90%	100%	98%
2015	82%	98%	85%
Offtakers	Meralco, ECs, DUs, DCCs, CCs, WESM(8)	Intercompany, WESM	Meralco, WESM
Income Tax Holiday ("ITH") Expiry(9)	July 2014	July 2014	July 2014
IPPA Expiry / Asset Transfer Date	October 2024	April 2028	June 2022

(1) Through TeaM Sual Corporation ("**TeaM Energy**").

(2) Through KEPCO Ilijan Corporation ("**KEILCO**").

(3) Through San Roque Power Corporation.

(4) SMEC is entitled to dispatch up to 1,000 MW, which is the net contracted capacity of the Sual Power Plant. The owner of the plant has the right to generate power in excess of the dispatch instructions of SMEC and sell such excess generation.

(5) SPDC expects the San Roque Power Plant to generate power at levels below its contracted capacity due to water levels in the reservoir and downstream irrigation requirements.

(6) Unit 1 of the Sual Power Plant is fully contracted to Meralco under a long-term offtake agreement while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives and industrial customers under existing PSCs.

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

(8) ECs: Electric Cooperatives; DUs: Distribution Utilities; DCCs: Directly Connected Customers; and CCs: Contestable Customers.

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

Sual Power Plant

Background

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999, and is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer ("**BOT**") scheme that expires on October 24, 2024. In 2007, TeaM Energy, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

On September 1, 2009, SMEC, a wholly owned subsidiary of SMC Global Power, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the Sual Power Plant in accordance with the provisions of the IPPA Agreement.

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to Sual IPPA Agreement. TeaM (Philippines) Energy Corporation ("TPEC"), an affiliate of TeaM Energy, is allowed to sell the remaining balance. TeaM Energy, as the IPP, has the right to generate power in excess of the dispatch instructions of SMEC and to sell such excess generation. For purposes of this Prospectus, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC.

IPPA Fees

SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month set out in the Sual IPPA Agreement. The specific amount of the fixed monthly payments under the Sual IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month in which a unit of the Sual Power Plant is unable to produce power for at least three non-delivering days, these agreed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which a unit is unable to produce power for reasons specified in the Sual IPPA Agreement, including planned and unplanned outages arising from causes not attributable to SMEC.

In addition, SMEC must pay monthly energy fees that are periodically adjusted for inflation and that consist of (i) a fixed base energy rate for power actually delivered by the Sual Power Plant comprising both a U.S. dollar and Peso component plus (ii) a variable energy rate for power actually delivered by the Sual Power Plant, in U.S. dollars only, that takes into account the cost and efficiency of fuel supplied to the Sual Power Plant as well as the efficiency (unit heat rate) of the Sual Power Plant, which is measured on an annual basis.

Other Provisions

Offtake agreements with certain customers were also assigned to SMEC by NPC/PSALM. SMEC is required to perform the obligations of NPC under the NPC-assigned offtake agreements, including the obligation to procure power at its own cost to meet deficiencies, in cases where the Sual Power Plant is unable to supply the contracted power. To date, all assigned offtake agreements have expired. SMEC is also required to maintain a U.S.$58 million performance bond in favor of PSALM. PSALM remains responsible to TeaM Energy for the payment obligations of NPC under the Sual ECA.

While SMEC is granted the right to coordinate with TeaM Energy, on behalf of NPC, on matters relating to management of the generation capacity of the Sual Power Plant, SMEC cannot directly enforce the Sual ECA against TeaM Energy or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Sual IPPA Agreement arising from the breach by TeaM Energy of its Sual ECA obligations must be claimed by SMEC against PSALM through an equivalent relief claim ("**ER Claim**"). PSALM will then include the ER Claim in its claims against TeaM Energy (the "**PSALM ER Claim**"). The Sual IPPA Agreement does not permit set-off of claims, and SMEC is only entitled to payment of its ER Claim after PSALM has received payment from TeaM Energy of its corresponding PSALM ER Claim.

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

The Sual IPPA Agreement may be terminated by either SMEC or PSALM due to certain force majeure events. In case of such termination, SMEC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SMEC up to the date of termination less the aggregate capital recovery fees, fixed operating and maintenance fees, infrastructure fees and service fees paid or payable by PSALM up to the termination date of the Sual IPPA Agreement.

Power Offtakers

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

For PSCs assigned by PSALM to SMEC, the rate is based on the prevailing rate structure of NPC as approved by the ERC. While the aforementioned PSCs have expired, SMEC has entered into new contracts with many of the same customers, and sold the remaining capacity to new customers.

For energy based contracts entered into by SMEC directly with new offtakers on a bilateral basis (or with those offtakers under previously assigned offtake agreements which have expired), pricing is based on a reasonable return over the cost structure of SMEC and benchmarked to the basic rates of NPC. The components for pricing comprise a Basic Energy Rate ("**BER**"), also on a time-of-use basis, and a monthly Basic Energy Rate Adjustment ("**BERA**") charge similar to the Automatic Cost Adjustment Mechanism ("**ACA**") charge of NPC.

The components for the BERA include adjustments for fuel, foreign exchange and inflation costs. Any changes to the level of the BER and/or the BERA are not affected by movements in the charges of NPC.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel and variable operating and maintenance expense.

Operations Review

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

	Year ended December 31,		
	2013	**2014**	**2015**
Actual Energy Generated (GWh)	6,427	6,536	6,066
Electricity sold (GWh):	7,084	7,132	7,617
of which: bilateral offtake agreements	6,101	6,393	7,048
of which: WESM sales	983	740	569
Average realized electricity prices(₱/MWh):			
for electricity sold under bilateral offtake agreements	4,555	4,611	4,439
for electricity sold on WESM	4,071	4,438	3,609
Net Capacity Factor (%)	73	75	69
Availability Factor (%)	88	90	82
Reliability Factor (%)	98	97	99
Average Net Dependable Capacity (MW)	999	999	915
Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**") (Lower heating value or "**LHV**")	2,458	2,410	2,427

Fuel Supply

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

	Year ended December 31,		
	2013	2014	2015
Metric tons (thousands)	2,543.4	2,531.2	2,381.8
Average calorific value (kcal/kg)	6,144.0	6,190.7	6,131.0
(₱ millions)	10,715.7	9,732.8	7,811.7
Average price per metric ton (₱)	4,213.2	3,845.2	3,279.7

SMEC is currently formalizing a coal supply agreement with KPC which will ensure coal supply from 2016 to 2024, subject to the extension of KPC's coal contract of work in 2021. Under the coal supply agreement, KPC will supply an annual total of 24 panamax shipments, each comprising 65,000 metric tons. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

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

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

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

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

	Year ended December 31,		
	2013	2014	2015
Unit 1	38 days	29 days	27 days
Unit 2	30 days	30 days	60 days

In 2015, Unit 2 of the Sual Power Plant underwent major scheduled maintenance which occurs once every 5 years. Unit 1 of the Sual Power Plant is scheduled to undergo its 60-day major scheduled maintenance in 2016.

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

	Year ended December 31,		
	2013	2014	2015
Unit 1	7 days	12 days	7 days
Unit 2	11 days	6 days	34 days

The 34 days forced outages was mostly due to an extended maintenance outage from November 16 - December 17, 2015 due to repairs of localized generator stator hot spots & looseness on generator core and lamination plates.

Power Transmission

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

San Roque Power Plant

Background

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

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

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

San Roque IPPA

Power Plant Capacity

PSALM and SMC Global Power (through SPDC) executed the San Roque IPPA Agreement pursuant to which SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation ("**SRPC**"). In addition, SPDC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. These fixed monthly payments are reduced when there is a plant outage for reasons not attributable to SPDC. In addition, SPDC pays a fixed generation fee of ₱1.30 per KWh. While the contracted capacity of SPDC is 345 MW, it may generate up to 411 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Prospectus, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

Minimum Run Rate

The San Roque PPA requires NPC to Take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2018 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to Take-or-pay for under the San Roque PPA.

IPPA Fees

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per kWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

Other Provisions

The San Roque IPPA Agreement requires SPDC to maintain a performance bond in favor of PSALM equivalent to U.S.$20 million. Under the San Roque IPPA Agreement, SPDC has the right to acquire the San Roque Power Plant in May 2028, which is the end of the cooperation period between NPC and SRPC under the San Roque PPA, or on some earlier date due to certain events such as changes in law or non- performance by SRPC under the San Roque PPA.

While SPDC is granted the right to coordinate with SRPC, on behalf of NPC, on matters relating to management of the generation capacity of the San Roque Power Plant, SPDC cannot directly enforce the San Roque PPA against SRPC or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the San Roque IPPA Agreement arising from the breach of SRPC of its San Roque PPA obligations must be claimed by SPDC against PSALM through the ER Claim and the PSALM ER Claim mechanism. Under the San Roque IPPA Agreement, SPDC has the option to acquire the San Roque Power Plant in May 2028 without any additional payment by SPDC. SPDC may exercise the option to acquire the San Roque Power Plant prior to May 2028 under certain circumstances, such as changes in law or non-performance by SRPC of its obligations under the San Roque PPA. In the case of non-performance by SRPC, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the San Roque IPPA Agreement. Upon the occurrence of a change in law, SPDC is required to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capacity fees and operating fees paid or payable by PSALM to the IPP under the IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

The San Roque IPPA Agreement may be terminated by either SPDC or PSALM due to certain force majeure events. In case of such termination, SPDC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capital recovery, operating and watershed management fees paid or payable by NPC/PSALM to SRPC from the effective date of the San Roque IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

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

Operations Review

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

	Year ended December 31,		
	2013	**2014**	**2015**
Actual Energy Generated (GWh)	785	695	1,066
Electricity sold (GWh):	795	841	1,589
of which: bilateral offtake agreements	83	242	863
of which: WESM sales	712	599	726
Average realized electricity prices(₱/MWh):			
for electricity sold under bilateral offtake agreement	13,137	6,302	5,096
for electricity sold on WESM	4,943	5,796	3,965
Net Capacity Factor (%)	26	23	35
Availability Factor (%)	97	100	98
Reliability Factor (%)	100	100	100
Average Net Dependable Capacity (MW)	411	411	415

Water Rights

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

- **Water Level Above The Upper Rule Curve** — All demands for water supply and irrigation are met and electricity can be generated at the full capacity of the turbine units. Excess inflow is discharged through the spillway. Water released through the spillway is controlled and regulated by the NPC Dam Office personnel.

- **Between Upper And Lower Rule Curves** — All demands for water supply and irrigation are satisfied. Generation of electricity is limited to the released water for water supply and irrigation. Further water releases for power generation are allowed provided that the Auxiliary Units are utilized first before Main Units.

- **Water Level Below Lower Rule Curve** — The remaining water in the reservoir is reserved for water supply and irrigation. Generation of electricity is limited to these water releases. If necessary, no further water release for power generation is allowed.

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

Operations and Maintenance

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

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

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

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

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

Year ended December 31,		
2013	**2014**	**2015**
10 days (May 25 to June 25)	3 days (May 27 to May 29)	6 days (May 26 to June 1)

Power Transmission

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

Ilijan Power Plant

Background

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

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

Ilijan IPPA

Power Plant Capacity and Fuel Supply

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

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

IPPA Fees

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC must pay monthly generation payments comprising a "must pay" amount for electricity sold up to a given volume (the "**Must Pay Volume**") and a variable amount for electricity sold in excess of the Must Pay Volume.

As discussed in Note 28(b), Note 27(b) and Note 27(a) of the Issuer's audited consolidated financial statements, as of and for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, respectively, the Issuer 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. For a more detailed discussion of said dispute, see “Certain Legal Proceedings” of this Prospectus.

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

Other Provisions

SPPC is required to maintain a U.S.$60 million performance bond in favor of PSALM. PSALM remains responsible to KEILCO for the payment obligations of NPC under the Ilijan ECA.

While SPPC is granted the right to coordinate with KEILCO, on behalf of NPC, on matters relating to management of the generation capacity of the Ilijan Power Plant, SPPC cannot directly enforce the Ilijan ECA against KEILCO or NPC. Any claims for damages for breach, or other entitlement, benefit or relief under the Ilijan IPPA Agreement arising from the breach of KEILCO of its obligations under the Ilijan ECA must be claimed by SPPC against PSALM through the ER Claim and the PSALM ER Claim mechanism.

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

The Ilijan IPPA Agreement may be terminated by either SPPC or PSALM due to certain force majeure events. In case of such termination, SPPC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPPC up to the date of termination less the aggregate capital recovery fees and fixed operating and maintenance fee paid or payable by NPC/PSALM to KEILCO from the effective date of the Ilijan IPPA Agreement up to the termination date of the Ilijan IPPA Agreement.

Power Offtakers

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

In the year ended December 31, 2013, 2014 and 2015, 86%, 91%, and 93%, respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the year ended December 31, 2013, 2014 and 2015, 14%, 9%, and 7% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

Operations Review

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

	Year ended December 31,		
	2013	2014	2015
Actual Energy Generated (GWh)	8,147	8,576	7,434
Electricity sold (GWh):	8,459	8,863	7,832
of which: bilateral offtake agreements	7,307	8,097	7,284
of which: WESM sales	1,152	766	549
Average realized electricity prices(₱/MWh):			
for electricity sold under bilateral offtake agreements	4,820	4,598	4,145
for electricity sold on WESM	2,821	3,719	2,339
Net Capacity Factor (%)	78	82	71
Availability Factor (%)	94	98	85
Reliability Factor (%)	100	100	97
Average Net Dependable Capacity (MW)	1,139	1,171	1,025
Net Heat Rate (Kilo-Joule/KWh)	6,738	6,799	6,463

Fuel Supply

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

Operations and Maintenance

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

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

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

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

	Year ended December 31,		
	2013	2014	2015
Block 1	0 days	13 days	50 days
Block 2	33 days	0 days	32 days

The maintenance of the Ilijan Power Plant is conducted once the minimum equivalent operating hours of 12,000 hours has been met. The minimum equivalent operating hours were not met and therefore there was no planned outage for the year 2013 for Block 1, and 2014 for Block 2. The 50-day 2015 planned outage for Block 1 was due to two outages, 1) compressor recovery work and adjusted major inspection of GT 1-2 on January 12 - February 15, 2016, and 2) Block 1 Maintenance outage on June 29 - July 29, 2016.

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

	Year ended December 31,		
	2013	2014	2015
Block 1	1 days	2 days	16 days
Block 2	1 days	1 days	4 days

Power Transmission

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

LIMAY COGENERATION PLANT

Background

The Limay Cogeneration Plant is a 4 x 35 MW fuel-fired cogeneration power plant located in Barangay Lamao, Limay, Bataan. Phase 1 (70 MW) of the Limay Cogeneration Plant commenced commercial operations on May 6, 2013, while Phase 2 (70 MW) commenced commercial operations on May 19, 2014. The engineering, procurement, and construction contractors of the Limay Cogeneration Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation.

SMC Global Power, through its subsidiary SPI, acquired the Limay Cogeneration Plant from Petron Corporation in September 2013. SPI acts as the IPP of the Limay Cogeneration Plant while Petron Corporation remains responsible for the operation and maintenance of the plant.

Petron Corporation has the right of first refusal in case of sale of the Limay Cogeneration Plant.

Power Offtakers

The Limay Cogeneration Plant has a net power contracted capacity of 140 MW and a steam generation capacity of 76 MW fully contracted to Petron Corporation under a 25-year PSA. The output of the Limay Cogeneration Plant will supply the electricity and steam requirements of the Limay refinery of Petron Corporation including the increase in demand from the new Refinery Master Plan 2 ("**RMP-2**").

Operations Review

The table below is a summary of operating statistics of the Limay Cogeneration Plant for the periods indicated.

	Year ended December 31,		
	2013	2014	2015
Actual Energy Generated (GWh)	104	537	527
Electricity sold (GWh):	104	537	527
of which: bilateral offtake agreements	104	537	527
of which: WESM sales	-	-	-
Average realized electricity prices(₱/MWh):			
for electricity sold under bilateral offtake agreement	10,755	10,473	13,772
for electricity sold on WESM	-	-	-
Net Capacity Factor (%)	66	49	43
Availability Factor (%)	92	87	89
Reliability Factor (%)	98	99	98
Average Net Dependable Capacity (MW)	48	75	100

Fuel Supply

The Limay Cogeneration Plant was designed to operate on coal and/or petcoke. Petron Corporation is expected to supply petcoke, a byproduct of the RMP-2 operations. Currently, the Limay Cogeneration Plant is using a mix of coal and petcoke from RMP-2.

Operations and Maintenance

Petron Corporation also serves as the operations and maintenance contractor for the Limay Cogeneration Plant under a 25-year operations and maintenance contract. Under this contract, Petron Corporation has the responsibility to operate and maintain the Limay Cogeneration Plant at par with the industry standards.

ANGAT HYDROELECTRIC POWER PLANT (“AHEPP”)

Background

AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. Pursuant to EPIRA, AHEPP was privatized through an asset purchase agreement between PSALM and K-Water. K-Water assigned its rights in favor of Angat Hydro Power Corporation (“**AHC**”), a joint venture between K-Water and PVEI, a subsidiary of SMC Global Power.

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

Fuel Supply and Water Rights

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

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

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

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

- MWSS, for domestic water supply to Metro Manila;
- Provincial Government of Bulacan, for water supply in the Bulacan Province;
- NIA, for irrigation diversion requirements; and
- NPC, for power generation.

Power Offtakers

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

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

Operations and Maintenance

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

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

ALBAY POWER AND ENERGY CORP. (“APEC”)

On October 29, 2013, after the open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO, which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. There is no transfer of the franchise to operate the distribution system or the ownership of the distribution assets. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power would pay a concession fee consisting of quarterly payments for the operating expenses of residual ALECO, and 50% of the net cash flow if the net cash flow is positive within 5 years or earlier. SMC Global Power also paid for the severance pay of ALECO employees dismissed as a result of the concession agreement. SMC Global Power established APEC, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

SALES STRATEGY AND CUSTOMERS

SMC Global Power seeks to sell substantially all of the power generated by Sual and Ilijan Power Plants and Limay Cogeneration Plant to customers pursuant to offtake agreements.

Currently, the entire capacity of the Ilijan Power Plant and Unit 1 of the Sual Power Plant are contracted under long-term offtake agreements with Meralco and its affiliates, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, and industrial customers under existing offtake agreements. The capacity of Limay Cogeneration Plant is likewise fully contracted to Petron Corporation. These agreements typically include Take-or-pay provisions whereby a customer is required to pay for a minimum contracted amount of power, regardless of whether or not the customer takes delivery of the entire amount, with the result that revenue from these offtake agreements is relatively stable during the duration of the agreements. If the generation output available to the subsidiaries of SMC Global Power from these plants exceeds the amount deliverable under their offtake agreements, such subsidiaries of SMC Global Power offer the excess power for sale through the WESM at the market clearing price. In the years ended December 31, 2013, 2014 and 2015, approximately 85%, 89%, and 92%, respectively, of total consolidated sales revenue from SMC Global Power were sold to customers pursuant to offtake agreements.

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

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

In the years ended December 31, 2013, 2014 and 2015, approximately 82%, 88%, and 89%, respectively, of consolidated volume of power sold by the Company are to customers pursuant to offtake agreements. Sales to Meralco accounted for approximately 64%, 64%, and 62% of the total consolidated sales volume of SMC Global Power, respectively, for the years ended December 31, 2013, 2014 and 2015. Sales through the WESM accounted for approximately 18%, 12%, and 11% of SMC Global Power’s total consolidated sales volume, respectively, for the years ended December 31, 2013, 2014 and 2015. In 2015, 2% of consolidated sales volume of SMC Global Power was for distribution customer sales through APEC.

EXPANSION PLANS

SMC Global Power intends to grow its power business by: (1) developing greenfield IPP projects with strong and profitable fundamentals and (2) continuing its strategic acquisition of power generation capacities or projects that may be bid out or offered by the government. SMC Global Power identifies potential investments by analyzing the demand for power and power-related services. Factors such as Philippine GDP and population growth, customer profile and mix, accessibility to the grids, and industrial expansion are considered. SMC Global Power also looks at commercial viability, potential costs (whether for development or acquisition) and competitive costs, as well as land acquisition and environmental protection issues and the impact of environmental protection requirements on overall profitability of the project, and the availability of Government incentives for a particular project.

Power Generation Capacity

Greenfield Power Projects

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

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

January 2013	Executed EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants

June 2013	Obtained Environmental Compliance Certificate ("**ECC**") and Pioneer Status from Board of Investments (tax holiday)
July 2013	Obtained Interim Customs Accreditation and Registration from Bureau of Customs
August 2013	Site hand over
September 2013	Obtained Certificate of Authority to Import Capital Equipment, Spare Parts and Accessories from Board of Investments
November 2013	Obtained zoning and location clearance from Municipality of Malita
2014 to November 2016	Construction and engineering of Unit 1 and Unit 2, and signing of offtake agreements
July 2016	Target Commercial Operations Date ("**COD**") for Unit 1
November 2016	Target COD for Unit 2

The following timeline sets forth key project milestones for the Limay Greenfield Power Plant (Phase 1):

January 2013	Executed EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.
July 2013	Obtained Interim Customs Accreditation and Registration from Bureau of Customs
September 2013	Obtained ECC and Pioneer Status from Board of Investments (tax holiday)
January 2014	Site hand over, submitted application for the Certificate of Authority to Import Capital Equipment, Spare Parts and Accessories to Board of Investments and pending application and negotiations with the Municipality of Limay with respect to zoning and location clearance
2014 to 2017.	Construction and engineering of Unit 1 and Unit 2, and Signing of offtake agreements
October 2016.	Target COD for Unit 1
January 2017	Target COD for Unit 2

The following timeline sets forth key project milestones for the Limay Greenfield Power Plant (Phase 2):

December 2017.	Target COD for Unit 3
February 2019	Target COD for Unit 4

The table below summarizes the information of the greenfield power plants of SMC Global Power.

Plant Name (Subsidiary)	Proposed Capacity	Location	Target Commercial Operation Date	Operator	Fuel Supply	Offtaker
Davao Greenfield Power Plant (San Miguel Consolidated Power Corporation)	2 x 150 MW	Barangay Culaman, Malita, Davao del Sur	July 2016 for Unit 1, November 2016 for Unit 2	Safetech Power Services Corp.	Regional Coal Suppliers/SMC Global power coal mines (when operational)	Industrial customer, ECs, DUs(1)
Limay Greenfield Power Plant (Phase 1) (SMC Consolidated Power Corporation)	2 x 150 MW	Barangay Lamao, Limay, Bataan	October 2016 for Unit 1, January 2017 for Unit 2	Mantech Power Dynamics Services Inc.	Regional Coal Suppliers/SMC Global power coal mines (when operational)	Industrial customer, ECs, DUs(1)
Limay Greenfield Power Plant (Phase 2) (Limay Premiere Power Corp.)	2 x 150 MW	Barangay Lamao, Limay, Bataan	December 2017 for Unit 3, February 2019 for Unit 4	Mantech Power Dynamics Services Inc.	Regional Coal Suppliers/SMC Global power coal mines (when operational)	Industrial customer, ECs, DUs(1)

(1) Electric Cooperatives ("**EC**"); Distribution Utilities ("**DU**").

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

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

Acquisition of Existing Power Generation Capacity

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

Retail Electricity Supply

SMC Global Power is pursuing downstream vertical integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. In August 2011, as part of the reorganization of the power-related assets of San Miguel Corporation, SMC Global Power acquired from San Miguel Corporation a 100% equity interest in SMELC, which holds an RES license from the ERC. As of December 31, 2015, SMELC supplies an equivalent of 31.8 MW to various facilities of San Miguel Corporation and other Contestable Customers.

Coal Investments

In accordance with the strategy of the Company to pursue vertical integration of its power business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which may provide a source of coal fuel supply for its planned and contemplated greenfield power projects. Such assets are in the exploratory stage and no results as to their actual viabilities were available as of December 31, 2015. The mines of SMC Global Power are envisioned to provide fuel for the two new greenfield projects under construction. The table below sets forth certain information regarding these assets.

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

Each of the COCs has a term of 10 years from the conversion date of the COC for development and production. The initial 10-year term of each COC may be extended for another 10-year period, and thereafter for a series of three-year periods not to exceed 12 years, in each case subject to agreement between the parties. Total mining rights recognized from the acquisitions of Sultan Energy, Daguma Agro and Bonanza Energy amounted to ₱1,720.0 million.

Daguma Agro

Daguma Agro, a coal mining company with coal property covered by COC No. 126 issued by the DOE, dated November 19, 2002, located in Barangay Ned, Lake Sebu, South Cotabato consisting of two (2) coal blocks with a total area of two thousand 2,000 hectares, more or less, has in-situ coal resources (measured plus indicative coal resources) of about 94 million metric tons as of December 31, 2015 based on exploratory drilling and additional in-fill drilling conducted by Daguma Agro.

Sultan Energy

Sultan Energy, has a coal mining property and right over an aggregate area of 7,000 hectares, more or less composed of seven (7) coal blocks located in Lake Sebu, South Cotabato and Sen. Ninoy Aquino, Sultan Kudarat covered by COC No. 134 issued by the DOE dated February 23, 2005. As of December 31, 2015, COC No. 134 has in-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons based on exploratory drilling and confirmatory drilling conducted by Sultan Energy.

Bonanza Energy

Bonanza Energy, a mining company with coal property covered by COC No. 138 issued by the DOE dated May 26, 2005. COC No. 138 is located in Maitum, Sarangani Province and Barangay Ned, Lake Sebu, South Cotabato consisting of eight (8) coal blocks with a total area of 8,000 hectares, more or less, has in-situ coal resources (measured plus indicative coal resources) of about 24 million metric tons as of December 31, 2015 based on initial exploratory drilling conducted by SMEC geologists in Maitum, Sarangani. The COCs met the contractual/legal criterion and qualified as intangible assets under PFRS 3.

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

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

(1) The term for Daguma Agro is followed by another 10-year extension, and thereafter, renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE. The term for Sultan Energy and Bonanza Energy is renewable for a series of 3-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.

CUSTOMERS

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

	Year ended December 31,					
Customers	**2013**		**2014**		**2015**	
	Volume Sold (GWh)	**Revenue (in millions ₱)**	**Volume Sold (GWh)**	**Revenue (in millions ₱)**	**Volume Sold (GWh)**	**Revenue (in millions ₱)**
Meralco	10,367	46,953	10,801	47,234	10,317	40,889
WESM	2,847	10,771	2,110	9,623	1,844	6,217
Total Major Customers	13,214	57,724	12,911	56,857	12,161	47,106
Others(1)	2,948	16,320	4,090	27,437	4,397	30,401
Total Sales	16,163	74,044	17,001	84,294	16,558	77,507

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

COMPETITION

SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines, with a 17% share of the power supply of the national grid, and 22% of the Luzon grid in each case as of December 31, 2015, based on ERC Resolution No. 03, Series of 2015. Its main competitors are the Lopez Group and the Aboitiz Group. The Lopez Group holds significant interests in First Gen Corporation and Energy Development Corporation, while the Aboitiz Group holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

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

COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

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

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

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

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

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

EMPLOYEES

As of December 31, 2015, SMC Global Power has 84 employees. All employees are based in Philippines.

Divisions/ Business Units	Number of Employees				
	Executives	Managers	Supervisors	Rank & File	TOTAL
Billing and Settlement	0	1	0	8	9
Comptrollership	1	0	0	4	5
Energy Sourcing and Trading	0	1	1	10	12
Finance Services	0	1	0	10	11
Financial Planning & Analysis	0	2	0	2	4
HR & Administration	0	1	0	4	5
Internal Audit	0	1	0	1	2
Legal	0	7	0	2	9
Office of the General Manager	1	1	1	2	5
Plant Operations	0	1	0	2	3
Risk Management & Procurement	0	0	0	5	5
Sales & Marketing	0	1	1	3	5
Tax Compliance	0	0	0	1	1
Treasury	1	0	1	3	5
Utility Economics	0	1	0	2	3
TOTAL	**3**	**18**	**4**	**59**	**84**

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

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

RECENT DEVELOPMENTS

On April 26, 2016, Mariveles Power Generation Corporation ("**MPGC**"), a wholly owned subsidiary of SMC Global Power, signed a PSA with Meralco for the delivery of up to 528 MW of electrical output from its 600 MW circulating fluidized bed coal-fired power generating facility to be constructed and operated in Mariveles, Bataan. The construction of said power plant is projected to be completed by 2019.

On April 26, 2016, Central Luzon Premiere Power Corp., a wholly owned subsidiary of SMC Global Power, signed a PSA with Meralco for the delivery of up to 528 MW of electrical output. Central Luzon Premiere Power Corp. intends to construct, own and operate a 600 MW circulating fluidized bed coal-fired power generating facility in Pagbilao, Quezon. The construction of said power plant is projected to be completed by 2019.

Last April 29, 2016, MPGC and Central Luzon Premiere Power Corp., together with Meralco, filed their respective applications with the ERC for the approval of the aforementioned PSAs.

On June 16, 2016, Meralco Powergen Corporation ("**MGen**"), a subsidiary of Meralco, and Zygnet Prime Holdings, Inc. ("**Zygnet**") subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, SMC Global Power holds 49% of the outstanding capital stock of MPGC while MGen holds 49% and Zygnet 2%. MPGC shall develop, construct, finance, own, operate and maintain a 4x150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

TRANSACTIONS WITH RELATED PARTIES

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. 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:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	2015	-	1,177	0	107	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2014	-	267	11	18		
Entities Under Common Control	2015	8,818	2,835	1,462	359	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2014	7,815	2,208	853	418		
Associate	2015	958	-	93	28	30 days; non-interest bearing	Unsecured; no impairment
	2014	879	-	78	28		
	2015	-	-	256	-	8 years; interest-bearing	Unsecured; no impairment
	2014	-	-	-	-		
Associates of Entities under Common Control	2015	735	119	79	0	30 days; non-interest bearing	Unsecured; no impairment
	2014	-	-	-	-		
	2015	-	-	-	3,103	10 years; interest-bearing	Secured
	2014	-	-	-	3,451		
Others	2015	7	321	2	160	On demand or 30 days; non-interest bearing	Unsecured; no impairment
	2014	-	-	-	-		
	2015	**10,519**	**4,452**	**1,892**	**3,757**		
	2014	**8,693**	**2,476**	**941**	**3,915**		

* All peso amounts in the table above are in millions.

(a) Amounts owed by related parties consist of trade and other receivables and security deposits (Note 7).

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

(c) Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position.

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

(e) The compensation of key management personnel of the Group amounted to ₱37.5 million and ₱32.6 million for the years ended December 31, 2015 and 2014, respectively.

(f) SMC offers shares of stock to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to weighted average daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock up to a maximum of 20,000 shares, subject to certain conditions, through payroll deductions (Note 3).

(g) The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date. The ESPP also allows subsequent withdrawal and cancellation of participant's subscriptions under certain terms and conditions.

(h) As of December 31, 2015 and 2014, there are no expenses related to ESPP.

DESCRIPTION OF PROPERTIES

SMC Global Power owns the Limay Cogeneration Plant, Davao Greenfield Power Plant and Limay Greenfield Power Plant. However, SMC Global Power does not own the IPPA plants until it elects a transfer of ownership at the expiry of the IPPA Agreement. The principal office address of SMC Global Power is located at 155 EDSA, Wack-Wack, Mandaluyong City, Philippines and it has another office located at 7 St. Francis Street Mandaluyong City, Philippines. These premises are leased by SMC Global Power from San Miguel Properties, Inc., a subsidiary of San Miguel Corporation.

CERTAIN LEGAL PROCEEDINGS

Petition to stop the imposition of the increase in generation charge

SMC Global Power and other generation companies became parties to a petition filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. The Supreme Court issued a Temporary Restraining Order ("**TRO**") ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. The TRO was originally for 60 days, and was extended for another 60 days. The case is pending resolution by the Supreme Court.

ERC order voiding WESM prices

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

SMC Global Power filed a request with the ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order. The request is pending resolution by the ERC.

The ERC Order has no impact on the financials of SMC Global Power, since the financial information reported in this Prospectus already took into account the minimum revenues and margins based on the adjusted bills from PEMC. The payments for energy under bilateral contracts were not affected and only the sales of SMC Global Power in the WESM are covered by the adjusted bill.

Ilijan IPPA Agreement Dispute

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

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

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

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

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

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. Preliminary conferences among the parties were scheduled on February 18, 2016, April 14, 2016 and June 16, 2016 were reset due to the pending motions. On June 16, 2016, the preliminary conference was reset to September 1, 2016 as the court has yet to resolve the pending motions.

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

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

Complaints for estafa and corruption against PSALM officers

On September 29, 2015, SPPC filed criminal complaints for estafa and violation of Section 3(e) of Republic Act 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 IPPA Administration Agreement. The complaints allege that SPPC's IPPA Administration Agreement was entered into and performed 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 U.S.$60 million. The DOJ summoned the parties to appear before the court on May 6, 2016. PSALM officers requested for extension to submit a counter-affidavit until May 25, 2016. During the preliminary hearing on May 25, 2016, PSALM officers requested for extension to submit a counter-affidavit until June 14, 2016. Thus, hearing was reset to June 14, 2016 for the submission of the counter-affidavit of the officers of PSALM. On June 14, 2016, PSALM officers requested until June 20, 2016 to submit their counter-affidavit. On June 21, 2016, SPPC submitted a manifestation stating that it will no longer submit a reply-affidavit and is submitting the case for resolution by the DOJ.

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

On October 21, 2015, SMEC filed criminal complaints for plunder and violation of Section 3(e) and 3(f) of RA 3019 before the DOJ against certain officers of PSALM, TPEC and TeaM Energy in connection with the illegal grant of the so-called "excess capacity" of the Sual Power Station in favor of TPEC pursuant to the Memorandum of Agreement among PSALM, TPEC and TeaM Energy, enabling it to receive a certain amount at the expense of the Government and SMEC. The DOJ summoned the parties to appear before the court on May 6, 2016. PSALM, TPEC and TeaM Energy are scheduled to submit a counter-affidavit on May 25, 2016. During the preliminary hearing on May 25, 2016, TPEC and TeaM submitted their counter-affidavit and PSALM officers required for an extension to submit a counter-affidavit until June 14, 2016. Thus, hearing was reset to June 14, 2016 for the submission of the counter-affidavit of the officers of PSALM and the reply-affidavit of SMEC to the counter-affidavit submitted by TPEC and TeaM Energy. On June 14, 2016, PSALM officers submitted their reply-affidavit. On June 21, 2016, SMEC submitted a manifestation stating that it will no longer submit a reply-affidavit and is submitting the case for resolution by the DOJ.

In connection with the foregoing, on June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Station ("Sale from the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount of Php 161,400,699.40, corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods 26 December 2015 to 25 April 2016.

Refund of system loss charge

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

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

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

Validity of Concession Agreement with ALECO

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

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

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company has an authorized capital stock of ₱2,000,000,000.00 comprised of 2,000,000,000 common shares with par value of ₱1.00 per common share. As of the date of this Prospectus, the Company has issued and outstanding 1,250,003,500 common shares. The common shares of the Company are neither traded in any market, nor subject to outstanding warrants to purchase, or securities convertible into common shares of the Company.

Stockholders

As of December 31, 2015, the Company has 8 stockholders, 7 of whom are individuals with at least five hundred shares each. The following sets out the shareholdings of the aforementioned 8 stockholders and the approximate percentages of their respective shareholdings to the total outstanding common stocks of SMC Global Power:

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

Dividend Policy

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

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

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

2015

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

2014

Date of Declaration	Amount (₱)	Type of Dividend	Payment Date
March 25, 2014	1,500,000,000	Cash	April 8, 2014
June 3, 2014	3,500,000,000	Cash	June 10, 2014
August 19, 2014	2,500,000,000	Cash	August 29, 2014
November 4, 2014	2,500,000,000	Cash	November 11, 2014

2013

Date of Declaration	Amount (₱)	Type of Dividend	Payment Date
February 19, 2013	1,000,000,000	Cash	February 28, 2013
May 3, 2013	1,000,000,000	Cash	May 15, 2013
August 13, 2013	1,000,000,000	Cash	August 15, 2013
November 29, 2013	1,500,000,000	Cash	December 5, 2013

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

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

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes as at and for the years ended December 31, 2015, 2014 and 2013 included elsewhere in this Prospectus. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements.

CRITICAL ACCOUNTING POLICIES

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

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

The management of SMC Global Power has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the IPPA Power Plants and therefore accounted for the IPPA Agreements as a finance lease. Accordingly, SMC Global Power recognized the IPPA Power Plants in its statements of financial position as an asset under "Property, plant and equipment" and recognized the agreed monthly payments due to PSALM under the IPPA Agreements as a liability under "Finance lease liabilities". In each case, the amount initially recognized equaled the present value of the agreed monthly payments to PSALM. Please see Notes 3, 4, 7 and 12 of the audited consolidated financial statements included in this Prospectus.

RESULTS OF OPERATIONS

Description of Certain Components of Our Results of Operations

Sale of Power and Electricity

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

Cost of Power Sold

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

Operating Expenses

For the years ended December 31, 2015, 2014 and 2013 operating expenses consist principally of management fees, taxes and licenses, outside services, rent, corporate social responsibility-related expenses, market fees, impairment losses on receivables, donations, and other expenses.

Other Income (Charges)

For the years ended December 31, 2015, 2014 and 2013, other income (charges) consists mainly of (i) PSALM monthly fees reduction; (ii) finance cost, (iii) foreign exchange gains (losses), (iv) equity in net losses of an associate and joint ventures, (v) interest income and (vi) miscellaneous income (charges).

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

Income Tax Expense

The income tax provision of SMC Global Power consists of:

- Current income tax
- Deferred income tax

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant on a pioneer status with non-pioneer incentives and were granted ITH for four (4) years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCPC and SCPC were registered with and granted incentives by the BOI on a pioneer status for six (6) years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCPC and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives shall be limited only to the revenues from the sale of the electricity generated from the power plants.

Results of Operations — Period to Period Comparison

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

Sale of Power

Sale of power decreased by 8.1% from ₱84.3 billion in 2014, reflecting the sale of 17,001 GWh of power, to ₱77.5 billion in 2015, reflecting the sale of 16,558 GWh of power. The decrease in revenue was mainly driven by the significant decline in the sales quantity of the Ilijan Power Plant owing to the lower output of the plant caused by the scheduled maintenance outage of Malampaya gas facility in March and April 2015, the annual outage of Block 2 of the Ilijan Power Plant and a series of natural gas supply restrictions as well as the more than 90-days extended major maintenance outage of Unit 2 of Sual power plant in addition to lower prices in the spot market.

Cost of Power Sold

Energy fees decreased by 24.5% from ₱30.8 billion in 2014 to ₱23.2 billion in 2015. The decrease represents primarily the significant reduction in net generation of the Ilijan Power Plant (from 8,576 GWh to 7,434 GWh) as a result of the abovementioned lower output of the plant caused by the scheduled maintenance outage of Malampaya gas facility in March and April 2015 and lower natural gas prices payable to PSALM with respect to the fuel of the Ilijan Power Plant.

Cost of coal and other fuel oil decreased by 13.1% from ₱11.9 billion in 2014 to ₱10.4 billion in 2015, primarily due to lower average coal prices per metric ton of the Sual and Limay Cogeneration Power Plants in addition to the decrease in coal consumption in 2015 due to lower net generation.

Power purchased from external sources increased by 37.8% from ₱6.0 billion in 2014 to ₱8.3 billion in 2015. The increase mainly represents the higher power purchased from other generators due to lower net generation as a result of outages and WESM trading-related charges.

Depreciation increased by 5.2% from ₱6.1 billion in 2014 to ₱6.5 billion in 2015, primarily due to the recognition of additional depreciation of Units 3 and 4 of the Limay Cogeneration Plant which were completed in August 2014.

Operating Expenses

Operating expenses increased by 68.4% from ₱2.9 billion in 2014 to ₱4.9 billion in 2015. The principal factors contributing to this were: (i) the support fee in the amount of ₱628.9 million paid and to be paid by SMC Global Power to its business partner, K-Water, in a joint venture relating to the acquisition of the AHEPP, (ii) an increase in management fees of ₱740.1 million, (iii) higher business taxes relating mainly to real property taxes of the Limay Cogeneration power plant and local business taxes of the Sual, Ilijan and San Roque Power Plants of ₱539.8 million, (iv) an increase in rental charges of ₱244.2 million, and (iv) additional corporate social responsibility projects of ₱115.9 million.

Other Income (Charges)

Equity in net losses of an associate and joint venture increased from (₱22.3) million in 2014 to (₱528.4) million in 2015, primarily because of the recognition of equity share in the loss from operations of SMC Global Power's 60% interest in AHC, through PVEI, of (₱528.9) million and SMC Global Power's 35% interest in OEDC amounting to ₱0.5 million earnings.

Foreign exchange losses increased from (₱813.6) million in 2014 to (₱7.6) billion in 2015, primarily because of the depreciation of the Peso against the U.S. dollar from ₱44.72 per U.S. dollar in 2014 to ₱47.06 per U.S. dollar in 2015. Finance costs remained relatively constant at ₱13.1 billion in 2015 and ₱13.2 billion in 2014.

Income Before Income Tax

As a result of the foregoing factors, income before income tax decreased from ₱13.3 billion in 2014 to ₱4.5 billion in 2015.

Income Tax Expense

Net income tax expense was relatively constant at ₱2.7 billion tax expense for both 2014 and 2015 with the expiration of the income tax holiday of the IPPA Plants in July 31, 2014.

Net Income

As a result of the abovementioned reasons, net income decreased from ₱10.6 billion in 2014 to ₱1.8 billion in 2015. Unrealized foreign exchange losses increased from (₱1.6) billion loss in 2014 to (₱7.5) billion in 2015, primarily because of the depreciation of the Peso against the U.S. dollar from ₱44.72 per U.S. dollar in 2014 to ₱47.06 per U.S. dollar in 2015.

In 2014, discounting the unrealized foreign exchange differential, the net income would be ₱12.2 billion. In 2015, discounting the unrealized foreign exchange differential, net income would be ₱9.3 billion. Thus, without the unrealized foreign exchange differentials, net income would have decreased from ₱12.2 billion in 2014 to ₱9.3 billion in 2015.

Year Ended December 31, 2014 compared to Year Ended December 31, 2013

Sale of Power

Sale of power increased by 13.8% from ₱74.0 billion in 2013, reflecting the sale of 16,163 GWh of power, to ₱84.3 billion in 2014, reflecting the sale of 17,001 GWh of power. The increase in revenue was mainly driven by higher bilateral volumes sold and improvements in bilateral and WESM average realization prices.

Cost of Power Sold

Energy fees decreased by 1.6% from ₱31.3 billion in 2013 to ₱30.8 billion in 2014. The decrease represents primarily the lower natural gas prices payable to PSALM with respect to the fuel of the Ilijan Power Plant.

Cost of coal and other fuel oil increased by 6.9% from ₱11.2 billion in 2013 to ₱11.9 billion in 2014, primarily due to increase in net generation volume of the Sual Power Plant and commercial operations of the four (4) units of Limay Cogeneration Plant in 2014. This was partially offset by the decrease in global market prices in 2014.

Power purchased from external sources increased by 53.9% from ₱3.9 billion in 2013 to ₱6.0 billion in 2014. The increase was due to power requirements of APEC sourced from other generators.

Depreciation increased by 14.1% from ₱5.4 billion in 2013 to ₱6.1 billion in 2014, primarily due to depreciation of the Limay Cogeneration Plant which was acquired in September 2013.

Operating Expenses

Operating expenses increased by 88.1% from ₱1.5 billion in 2013 to ₱2.9 billion in 2014. The principal factor contributing to this was the donation to Team Sual Corporation of a grab type coal unloader amounting to ₱442.5 million. In addition, there was an increase in the provision for impairment losses on receivable by ₱111.5 million, an increase in taxes and licenses by ₱296.2 million for the real property tax of the Limay Cogeneration Plant and donors tax for the coal unloader donation and an increase in outside services expenses by ₱108.0 million in 2014.

Other Income (Charges)

Equity in net earnings of an associate decreased from ₱795.0 million in 2013 to (₱22.3) million loss in 2014, primarily because of the recognition of equity share in the loss from operation of 60% interest in AHEPP and 35% interest in OEDC in 2014, compared with the disposal of Global Power's 6.13% interest in Meralco in 2013.

Foreign exchange losses significantly improved from (₱9.4) billion in 2013 to (₱813.6) million in 2014, primarily because of the substantial movement of the Peso against the U.S. dollar in

2013, from ₱41.050 U.S. dollar in 2012 to ₱44.395 per U.S. dollar in 2013 versus the movement in the Peso against the U.S. dollar in 2014, from ₱44.395 U.S. dollar in 2013 to ₱44.720 U.S. dollar in 2014.

Gain on sale of investment in 2014 was nil and ₱2.6 billion in 2013 as a result of the sale of 6.13% interest in Meralco shares. Finance cost increased from ₱12.7 billion in 2013 to ₱13.2 billion in 2014 due to additional drawn debt for the project finance of the Limay Cogeneration Plant.

Income Before Income Tax

As a result of the foregoing factors, income before income tax increased from ₱3.2 billion in 2013 to ₱13.3 billion in 2014.

Income Tax Expense

Net income tax expense increased from (₱836.3) million tax benefit in 2013 to ₱2.7 billion tax expense in 2014, primarily because of deferred income tax temporary difference of the excess of depreciation and other related expenses over monthly PSALM payments and expiration of income tax holidays in July 2014 for the IPPA Power Plants.

Net Income

As a result of the foregoing factors, net income increased from ₱4.0 billion in 2013 to ₱10.6 billion in 2014. Unrealized foreign exchange losses improved from (₱9.6) billion in 2013 to (₱1.6) billion in 2014, primarily because of the nominal depreciation of the Peso against the U.S. dollar in 2014, from ₱44.395 per U.S. dollar in 2013 to ₱44.720 per U.S. dollar in 2014.

In 2013, discounting the unrealized foreign exchange differential and nonrecurring income, the net income would be ₱11.0 billion. In 2014, discounting the unrealized foreign exchange differential, the net income would be ₱12.2 billion. Thus, without the unrealized foreign exchange differential and nonrecurring income, net income would have increased from ₱11.0 billion in 2013 to ₱12.2 billion in 2014.

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Sale of Power

Sale of power decreased by 0.8% from ₱74.7 billion in 2012, reflecting the sale of 15,961 GWh of power, to ₱74.0 billion in 2013, reflecting the sale of 16,163 GWh of power. The decrease in revenues resulted primarily from lower average WESM prices in 2013. This was partially offset by increased in generation volume mainly attributable to Sual’s improved plant utilization.

Cost of Power Sold

Energy fees decreased by 5.7% from ₱33.1 billion in 2012 to ₱31.3 billion in 2013. The decrease represents primarily the lower energy fees payable to PSALM with respect to the Ilijan Power Plant due to the change in transition supply contract to the new power supply contract of Meralco.

Cost of coal and other fuel oil decreased by 14.4% from ₱13.1 billion in 2012 to ₱11.2 billion in 2013, primarily due to lower average coal consumption cost per metric ton. This was partially offset by an increase in the quantity of coal consumed due to the increase in net generation for 2013.

Power purchased from external sources decreased by 11.7% from ₱4.5 billion in 2012 to ₱3.9 billion in 2013. The decrease was due to lower quantity of power purchased from WESM.

Depreciation increased by 3.8% from ₱5.2 billion in 2012 to ₱5.4 billion in 2013, primarily due to depreciation of the Limay Cogeneration Plant acquired in September 2013.

Operating Expenses

Operating expenses decreased by 6.8% from ₱1.7 billion in 2012 to ₱1.6 billion in 2013. The principal factors contributing to the decrease were lower provision for impairment losses on receivable by ₱280.3 million, lower professional fees by ₱107.7 million and lower outside services expenses by ₱235.3 million in 2013.

Other Income (Charges)

Equity in net earnings of an associate decreased from ₱1.1 billion in 2012 to ₱795.0 million in 2013, primarily because of the disposal of SMC Global Power's 6.13% interest in Meralco in 2013 and the non-recognition of equity share for the fourth (4^{th}) quarter. Going forward equity in net earnings from the Meralco investment will not be recognized. (Please see Note 13 of the 2013 Audited Consolidated Financial Statements).

Foreign exchange differential decreased from ₱7.7 billion gain in 2012 to (₱9.4) billion loss in 2013, primarily because of the depreciation of the Peso against the U.S. dollar in 2013, from ₱41.050 U.S. dollar in 2012 to ₱44.395 per U.S. dollar in 2013.

Gain on sale of investment increased from ₱106.6 million in 2012, which represents the sale of interests in Rockwell shares to ₱2.6 billion in 2013 as a result of the sale of Meralco shares. Finance cost remained relatively constant at ₱12.7 billion in 2012 and 2013.

Income Before Income Tax

As a result of the foregoing factors, income before income tax decreased from ₱15.6 billion in 2012 to ₱3.2 billion in 2013.

Income Tax Expense

Net income tax expense decreased from ₱1.4 billion tax expense in 2012 to (₱836.3) million tax benefit in 2013, primarily because of deferred income tax temporary difference of the excess of depreciation and other related expenses over monthly PSALM payments.

Net Income

As a result of the foregoing factors, net income decreased from ₱14.2 billion in 2012 to ₱4.0 billion in 2013. Unrealized foreign exchange differential decreased from ₱7.8 billion gain in 2012 to (₱9.6) billion loss in 2013, primarily because of the depreciation of the Peso against the U.S. dollar in 2013, from ₱41.050 per U.S. dollar in 2012 to ₱44.395 per U.S. dollar in 2013.

In 2012, discounting the unrealized foreign exchange differential and nonrecurring income, the net income would be ₱6.3 billion. In 2013, discounting the unrealized foreign exchange differential and nonrecurring income, the net income would be ₱11.0 billion. Thus, without the unrealized foreign exchange differential and nonrecurring income, net income would have increased from ₱6.3 billion in 2012 to ₱11.0 billion in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

	For the years ended December 31,		
	2013	2014	2015
	(in millions of ₱)		
Net cash flows provided by operating activities	25,664.0	32,855.8	25,251.1
Net cash flows used in investing activities	(20,764.8)	(6,432.7)	(34,751.2)
Net cash flows provided by (used in) financing activities	837.7	(16,430.3)	(6,955.4)
Effect of exchange rate changes on cash and cash equivalents	(167.2)	(813.6)	392.5
Net increase (decrease) in cash and cash equivalents	5,569.7	9,179.1	(16,062.9)
Cash and cash equivalents at beginning of period	23,555.4	29,125.2	38,304.3
Cash and cash equivalents at end of period	29,125.2	38,304.3	22,241.4

Net Cash Flows Provided by Operating Activities

January to December 2015

Net cash flows provided by operating activities was ₱25.3 billion. This was mainly the result of income before tax of ₱4.5 billion, adjusted for non-cash items and changes in working capital, including interest expense and other financing charges of ₱13.1 billion, net unrealized foreign exchange losses of ₱7.5 billion, depreciation and amortization of ₱6.5 billion, equity in net losses of an associate and joint ventures of ₱528.4 million, impairment losses on trade and other receivables of ₱374.8 million, a net decrease in working capital of ₱3.0 billion, finance costs paid of ₱2.9 billion, interest received of ₱426.5 million and payment for income taxes of ₱1.5 billion. The net decrease in working capital was mainly due to increase in prepaid expenses and other current assets that pertains to current and deferred Input VAT on purchases.

January to December 2014

Net cash flows provided by operating activities was ₱32.9 billion. This was mainly the result of income before tax of ₱13.3 billion, adjusted for non-cash items and changes in working capital, including interest expense and other financing charges of ₱13.2 billion, net unrealized foreign exchange losses of ₱1.6 billion, depreciation and amortization of ₱6.2 billion, equity in net losses of an associate and joint ventures of ₱22.3 million, impairment losses on trade receivables of ₱144.4 million, a net increase in working capital of ₱2.3 billion, finance costs paid of ₱2.2 billion, interest received of ₱546.4 million and payment for income taxes of ₱1.7 billion. The net increase in working capital was mainly due to increase in accounts payable and accrued expenses.

January to December 2013

Net cash flows provided by operating activities was ₱25.7 billion. This was mainly the result of income before tax of ₱3.2 billion, adjusted for non-cash items and changes in working capital, including interest expense and other financing charges of ₱12.7 billion, net unrealized foreign exchange losses of ₱9.6 billion, depreciation and amortization of ₱5.4 billion, equity in net earnings of associates of ₱795.0 million, impairment losses on trade receivables of ₱32.9 million, a net decrease in working capital of ₱857.3 million, finance costs paid of ₱800.1 million, interest received of ₱527.7 million and payment for income taxes of ₱294.1 million. The net decrease in working capital was mainly due to increase in trade and other receivables and prepaid expenses and other current assets that pertains to current and deferred Input VAT on purchases.

Net Cash Flows Used in Investing Activities

January to December 2015

The net cash flows used in investing activities of ₱34.8 billion was due to additions in property, plant and equipment pertaining to the construction of greenfield power plants in Malita and Limay of ₱33.8 billion, additions to investments and advances of ₱529.1 million, increase in noncurrent receivable of ₱253.8 million, additions to intangible asset of ₱117.7 million and deferred exploration and development costs of ₱17.8 million.

January to December 2014

The net cash flows used in investing activities of ₱6.4 billion was due to net changes from additions in property, plant and equipment pertaining to the construction of Limay Cogeneration power plant and greenfield power plants in Malita and Limay of ₱17.3 billion, additions to investments and advances of ₱4.6 billion, additions to intangible asset of ₱593.6 million, deferred exploration and development costs of ₱145.8 million and proceeds from sale of 6.13% interest in Meralco of ₱16.2 billion.

January to December 2013

The net cash flows used in investing activities of ₱20.8 billion was due to net changes from additions in property, plant and equipment pertaining to the acquisition of Limay Cogeneration power plant from Petron and construction of greenfield power plants in Malita and Limay of ₱19.1 billion, additions to investments and advances of ₱2.1 billion, deferred exploration and development costs of ₱200.8 million and dividend proceeds from 6.13% interest in Meralco of ₱704.4 million.

Net Cash Flows Used in Financing Activities

January to December 2015

Net cash flows used in financing activities of ₱7.0 billion consisted of proceeds from issuance of U.S.$300 million undated subordinated capital securities of ₱13.8 billion issued August 2015, drawn the remaining U.S.$200 million or ₱8.8 billion out of the U.S.$700 million 5-year term loan facility of the Company, payments of finance lease liabilities to PSALM amounting to ₱22.3 billion, cash dividends paid to SMC of ₱4.5 billion, distributions to undated subordinated capital securities holders of ₱1.5 billion and payment of long-term debt of SMC Powergen Inc. of ₱1.4 billion.

January to December 2014

Net cash flows used in financing activities of ₱16.4 billion consisted of proceeds from issuance of U.S.$300 undated subordinated capital securities of ₱13.1 billion issued May 2014, drawn the remaining ₱1.5 billion from the loan facility of SMC Powergen Inc., payments of finance lease liabilities to PSALM amounting to ₱20.1 billion, cash dividends paid to SMC of ₱10.0 billion, distributions to undated subordinated capital securities holders of ₱723.2 million and payment of long-term debt of SMC Powergen Inc. of ₱193.2 million.

January to December 2013

Net cash flows provided by financing activities of ₱837.7 million consisted of U.S.$500 million or ₱20.9 billion proceeds from the U.S.$700 million 5-year term loan facility entered into by the Company in 2013, drawn ₱12.3 billion from the loan facility of SMC Powergen Inc., payments of finance lease liabilities to PSALM amounting to ₱19.1 billion, cash dividends paid to SMC of ₱4.5 billion, and payment of U.S.$200 million or ₱8.7 billion 3-year term loan facility entered into by the Company in 2011.

Key Performance Indicators

The major financial indicator being used by the Company is Ratio of net debt to EBITDA or Leverage Ratio which should not exceed 5.5x:

	2013	2014	2015
Leverage Ratio(1)	0.75	(0.24)	4.49

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

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

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

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

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

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

Liquidity and Indebtedness

For the years 2015 and 2014, the main source of liquidity of the Company was from cash from sale of power and electricity. It expects to meet its working capital requirements, capital expenditures, and dividend payments. The Company may seek other sources of funding for its future capital expenditures, which may include debt and/or equity financing, depending on its needs and market conditions.

Contractual Obligations / Liabilities

The following table summarizes the maturity analysis of the contractual obligations of the Company based on undiscounted payments as of December 31, 2015:

	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year
	(in millions of ₱)			
Accounts payable and accrued expenses*	27,707.7	27,707.7	27,707.7	-
Finance lease liabilities (including current portion)	179,193.2	231,795.5	23,755.5	208,040.0
Long-term debt – net (including current portion)	58,607.9	59,293.7	15,691.2	43,602.5
	265,508.8	318,796.9	67,154.4	251,642.5

* Excluding statutory payables

Capital Resources

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

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

As of December 31, 2015, the Company has cash and cash equivalents of ₱22.2 billion, current assets of ₱57.0 billion and current liabilities of ₱65.1 billion. For the same year, long term debt including current maturities and net of debt issue costs amounted to ₱58.6 billion.

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

As of the same date, the Company has 1,250 million common shares with par value of ₱1 per share.

Capital Expenditures

SMC Global Power invested ₱33.8 billion, ₱17.3 billion and ₱19.1 billion in capital expenditures during the years 2015, 2014 and 2013 respectively. Majority of these amounts were used for the acquisition of Limay Cogeneration power plant and construction of greenfield power plants in Malita and Limay.

Off-Balance Sheet Arrangements

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

Financial Risk Management Objectives and Policies

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

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

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

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

The Board of Director has the overall responsibility for the establishment and oversight of the risk management framework of the Company. The Board of Director has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the Company on its activities.

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

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

Interest Rate Risk

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

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Company's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

Foreign Currency Risk

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

Information on the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

	2015		2014	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets	(in millions of)			
Cash and cash equivalents	U.S.$210.6	₱9,909.8	U.S.$260.2	₱11,635.2
Trade and other receivables	81.7	3,847.0	83.9	3,753.5
	292.3	13,756.8	344.1	15,388.7
Liabilities				
Accounts payable and accrued expenses	278.8	13,121.8	148.2	6,633.7
Finance lease liabilities	2,057.6	96,831.4	2,217.0	99,143.3
Long-term debt	1,000.0	47,060.0	800.0	35,776.0
	3,336.4	157,013.2	3,165.2	141,553.0
Net foreign currency-denominated monetary liabilities	U.S.$3,044.1	₱143,256.4	U.S.$2,821.1	₱126,164.3

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Company's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity from increases or decreases in unrealized and realized foreign exchange gains or losses.

Liquidity Risk

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

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

The Company constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

Credit Risk

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

The Company has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Company obtains collateral or arranges master netting agreements.

Other Matters

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

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

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

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

- There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date.

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

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

MANAGEMENT AND CERTAIN SECURITY HOLDERS

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

Name	Age	Position	Citizenship	Year Appointed
Ramon S. Ang	62	Chairman	Filipino	2010
Ferdinand K. Constantino	64	Director	Filipino	2010
Alan T. Ortiz	62	Director	Filipino	2010
Aurora T. Calderon	61	Director	Filipino	2010
Virgilio S. Jacinto	59	Director	Filipino	2010
Jack G. Arroyo, Jr.	58	Independent Director	Filipino	2011
Consuelo M. Ynares-Santiago	76	Independent Director	Filipino	2011

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

Ramon S. Ang is the incumbent Chairman of the Board and Chief Executive Officer of SMC Global Power since August 31, 2010 and the Chairman of the Executive Committee of SMC Global Power since September 2, 2011. He is the Vice Chairman of San Miguel Corporation since January 28, 1999, and the President and Chief Operating Officer of San Miguel Corporation since March 6, 2002. He is also a Member of the Executive Committee and Nomination and Hearing Committee of San Miguel Corporation. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; Chairman of the Board of San Miguel Brewery Inc. and San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange); Vice Chairman of the Board of Ginebra San Miguel, Inc., and San Miguel Pure Foods Company, Inc. He is also the Chairman and President of San Miguel Holdings Corp. and San Miguel Equity Investments Inc.; Chairman of the Board of Sea Refinery Corporation, San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Properties, Inc., Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc., and Atea Tierra Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of Privado Holdings, Corp. He formerly held the following positions: President and Chief Operating Officer of PAL Holdings, Inc., Philippine Airlines, Inc.; Director of Air Philippines Corporation; Chairman of the Board of Cyber Bay Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of San Miguel Corporation in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Ferdinand K. Constantino is a Director of SMC Global Power since August 31, 2010 and the Vice Chairman of the Board since September 2, 2011 of SMC Global Power, and was its Treasurer from August 31, 2010 to September 1, 2011. He is a member of the Executive Committee, Audit Committee and Executive Compensation Committee of SMC Global Power since September 2, 2011. He is also a Director of San Miguel Corporation since May 31, 2010 and the Senior Vice President, Chief Finance Officer and Treasurer of San Miguel Corporation. He is a member of the Executive Committee, Audit Committee, Executive Compensation Committee and Nomination and Hearing Committee of San Miguel Corporation. He also holds, among others, the following positions in other publicly-listed companies: Director of San Miguel Brewery Inc., Top Frontier Investment Holdings, Inc. and Petron Malaysia Refining

& Marketing Bhd, a company publicly listed in Malaysia. He is also the President of Anchor Insurance Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005); Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of San Miguel Corporation during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Alan T. Ortiz is the incumbent President and Chief Operating Officer of SMC Global Power since August 31, 2010 and a member of the Audit Committee and Nomination and Election Committee of SMC Global Power since September 2, 2011. Previously, he was a Director of the Manila Electric Company. He is currently the Managing Partner of CEOs Inc., a Director and Treasurer of Global Resource for Outsourced Workers, Inc., and an Assistant Professor in the Department of Economics/Political Science of the Ateneo de Manila University.

Aurora T. Calderon is a Director of SMC Global Power since August 31, 2010 and a member of the Executive Committee and Chairperson of the Executive Compensation Committee of SMC Global Power since September 2, 2011. She is also a director of San Miguel Corporation since June 10, 2014 and also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation since January 20, 2011. She is a member of the Executive Compensation Committee of San Miguel Corporation. She holds the following positions in other publicly listed companies: Director and Treasurer of Top Frontier Investment Holdings, Inc. and Director of Petron Corporation. She is also a member of the board of directors of Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corp., Thai San Miguel Liquor Co., San Miguel Equity Investments Inc., Bank of Commerce, and Kankiyo Corporation. She is the President and the Director of Total Managers, Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated from the University of the East with a degree in BS Business Administration, major in Accountancy, magna cum laude. In addition, Ms. Calderon holds directorships in various San Miguel Corporation domestic and international subsidiaries.

Virgilio S. Jacinto is the Corporate Secretary of SMC Global Power since August 31, 2010, a Director, the Compliance Officer and a member of the Nomination Committee and Election Committee of SMC Global Power since September 2, 2011. He is also the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of San Miguel Corporation (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Ginebra San Miguel, Inc. He is a Director of San Miguel Brewery Inc. and Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 of San Miguel Corporation. He was Director and Corporate Secretary of UCPB, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of San Miguel Corporation.

Jack G. Arroyo, Jr. is an Independent Director of SMC Global Power, the Chairman of the Audit Committee, and a member of the Executive Compensation Committee of SMC Global Power, since September 2, 2011. He is a medical doctor and ophthalmologist by profession and is currently affiliated with The American Eye Center, The Medical City, and Eye Referral Center. He is also a member of the Board of Directors of the Philippine Healthcare Educators, Inc. and the ASEAN Eye Center Association. He is also currently the President of Casino Español de Manila.

Consuelo M. Ynares-Santiago is an Independent Director of SMC Global Power, the Chairperson of the Nomination and Election Committee, and a member of the Audit Committee of SMC Global Power, since September 2, 2011. She is also an Independent Director of Anchor Insurance Brokerage Corporation since 2012, Top Frontier Investment Holdings, Inc. since 2013, South Luzon Tollway Corporation since 2015 and Phoenix Petroleum Phil. Inc. She served as an Associate Justice of the Supreme Court of the Philippines from 1999 to 2009; Associate Justice of the Court of Appeals of the Philippines from 1990 to 1999; Regional Trial Court Judge of Makati, Branch 149 from 1986 to 1990; Metropolitan Trial Court Judge of Pasig, Brach 69 from 1983 to 1984 and of Caloocan City, Branch 41 from January to October 1983, a Municipal Judge in Cainta, Rizal from 1973 to 1983; and as a Legal Officer of the SEC from February 1986 to July 1973. She obtained her law degree from the University of the Philippines in 1962.

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

Name	Age	Position	Citizenship	Year Position was Assumed
Ramon S. Ang	62	Chairman & Chief Executive Officer	Filipino	2010
Ferdinand K. Constantino	64	Vice Chairman	Filipino	2010
Alan T. Ortiz	62	President & Chief Operating Officer	Filipino	2010
Virgilio S. Jacinto	59	Corporate Secretary	Filipino	2010
Elenita D. Go	55	General Manager and Energy Sourcing & Trading Group Head	Filipino	2011
Alexander B.M. Simon	52	Assistant Vice President & Chief Finance Officer	Filipino	2011
Ramon U. Agay	58	Assistant Vice President & Finance Manager	Filipino	2011
Irene M. Cipriano	41	Assistant Corporate Secretary	Filipino	2010

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

Elenita D. Go is the General Manager of SMC Global Power since December 14, 2011. She joined SMC Global Power in June 2011 as head of its Sales and Trading Group. She was also a Member of the Board of Directors of Meralco from November 2009 until June 2010. From April 2008 until October 2010, Ms. Go was the head of the Corporate Procurement Unit of San Miguel Corporation. Ms. Go obtained her Masters in Business Administration degree from Ateneo de Manila — Graduate School of Business and her Bachelor of Science degree in Electrical Engineering from Mapua Institute of Technology.

Alexander B.M. Simon is the Chief Finance Officer of SMC Global Power since September 2, 2011 and was appointed Assistant Vice President on March 25, 2015. He had served as a financial consultant (2008-2011) to various private companies. He had held, among others, the following positions: Vice President for Finance and Accounting of PruLife of UK (2006-2008); Vice President for Finance and Administration and Chief Finance Officer of LST, Inc. (2004-2006), financial consultant to various SMEs (2003-2004); Vice President for Finance and Administration and Chief Finance Officer of Philamcare Health Systems (2003); Vice President and Group Treasurer/Finance Head of the Marsman Drysdale Group (2001-2003); Assistant Vice President, Treasury of Bayan Telecommunications, Inc. (1996-2001); Assistant Vice President, Treasury of Isla Communications Company, Inc. (1995-1996); and Assistant Vice President of Investment & Capital Corporation of the Philippines (1992-1995).

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

Irene M. Cipriano is the Assistant Corporate Secretary of SMC Global Power since 2010. She is an Assistant Vice President and Associate General Counsel of San Miguel Corporation. She is also the Corporate Secretary of San Miguel Equity Investments Inc. (since 2011) and Assistant Corporate Secretary of Top Frontier Investment Holdings, Inc. (since 2013), and of various subsidiaries of SMC Global Power and San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. (2012-2014) and Philippine Airlines Inc. (2012-2014).

SIGNIFICANT EMPLOYEES

The Company has no significant employee or personnel who was not an executive officer but is expected to make a significant contribution to the business.

FAMILY RELATIONSHIPS

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

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five years until the date of this Prospectus.

EXECUTIVE COMPENSATION

From the years 2013 to 2015, the Chairman and Chief Executive Officer and Vice Chairman of the Company were the only Executive Officers who did not receive any compensation from SMC Global Power.

The following table summarizes the aggregate compensation paid to the other officers and managers of the Company during the periods indicated below:

Name	Year	Salary	Bonus
Total compensation of the Chief Operating Officer (President) and senior Executive Officers other than the President[1]	2015	₱23,517,360.00	₱9,465,158.00
	2014	₱21,389,600.00	₱7,690,767.00
	2013	₱18,868,080.00	₱4,332,713.00
All other officers and managers as a group	2015	₱30,258,675.00	₱23,794,543.29
	2014	₱27,900,550.00	₱18,804,718.96
	2013	₱25,984,790.00	₱17,299,829.48

[1] The President and senior Executive Officers of the Company for 2013 to 2015 are Alan T. Ortiz, Elenita D. Go, Alexander Benhur M. Simon, and Ramon U. Agay.

Standard Arrangements

The executive officers are covered by standard employment contracts and employees' retirement plan and can be terminated upon appropriate notice. Other than reasonable *per diem,* or as may be determined by the Board for every meeting, the Directors of the Company have not received any salary or compensation for their services as directors and for their committee participations. There are no other special arrangements pursuant to which any director was compensated. There is no compensatory plan or arrangement for the termination, resignation, or retirement of a member of the Board.

Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services other than those provided as a Director.

Employment Contract

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for one year term. Any Director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options Outstanding

There are no warrants or options held by Directors or Executive Officers.

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

(a) Security Ownership of Certain Records and Beneficial Owners of more than 5% as at December 31, 2015

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% Out of Total Outstanding Shares
Common	San Miguel Corporation 40 San Miguel Avenue, Mandaluyong City Nature of Relationship: Parent	Same as record owner	Filipino	1,250,000,000	100.00%

(b) Security Ownership of Directors and Management as at December 31, 2015

Title of Class	Name of Beneficial Owner	Amount and Nature of Ownership	Citizenship	% Out of Total Outstanding Shares
Common	Ramon S. Ang	500 (of record)	Filipino	0.00%
Common	Ferdinand K. Constantino	500 (of record)	Filipino	0.00%
Common	Alan T. Ortiz	500 (of record)	Filipino	0.00%
Common	Aurora T. Calderon	500 (of record)	Filipino	0.00%
Common	Virgilio S. Jacinto	500 (of record)	Filipino	0.00%
Common	Jack G. Arroyo, Jr.	500 (of record)	Filipino	0.00%
Common	Consuelo M. Ynares-Santiago	500 (of record)	Filipino	0.00%

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

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	% Out of Total Outstanding Shares
Common	San Miguel Corporation 40 San Miguel Avenue, Mandaluyong City Nature of Relationship: Parent	Same as record owner	Filipino	1,250,000,000	100.00%

(d) Security Ownership of Directors and Management as of date of this Prospectus

Title of Class	Name of Beneficial Owner	Amount and Nature of Ownership	Citizenship	% Out of Total Outstanding Shares
Common	Ramon S. Ang	500 (of record)	Filipino	0.00%
Common	Ferdinand K. Constantino	500 (of record)	Filipino	0.00%
Common	Alan T. Ortiz	500 (of record)	Filipino	0.00%
Common	Aurora T. Calderon	500 (of record)	Filipino	0.00%
Common	Virgilio S. Jacinto	500 (of record)	Filipino	0.00%
Common	Jack G. Arroyo, Jr.	500 (of record)	Filipino	0.00%
Common	Consuelo M. Ynares-Santiago	500 (of record)	Filipino	0.00%

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

(e) Voting Trust Holders of 5% or more

SMC Global Power is not aware of any person holding more than 5% of common shares under a voting trust or similar agreement.

(f) Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Except for the transactions discussed in Note 18 ("Related Party Transactions") to the accompanying financial statements, there were no other material related party transactions during the last three financial years, nor are there any material transactions currently proposed between SMC Global Power and any: (i) director or executive officer, direct or indirect owner of 10% or more of the outstanding shares in SMC Global Power ; (ii) close family member of such director, executive officer or owner; (iii) associates of SMC Global Power; (iv) enterprises controlling, controlled by or under common control with SMC Global Power; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any director, executive officer or owner of 10% or more of the outstanding shares in SMC Global Power or any close family member of such director, executive officer, or owner.

DESCRIPTION OF DEBT

U.S. $300 Million BDO Loan

On January 2011, the Company issued Notes with various international financial institutions for a 7% rate with an aggregate principal amount of U.S.$300 million and a tenor of five (5) years. The same was refinanced on January 2016 via a short term loan from BDO.

As of the date of this Prospectus, the short term loan has an outstanding balance of U.S.$300 million.

U.S. $700 Million Term Facility

On September 2013, the Company entered into a five (5) year U.S.$700 million Term Facility Agreement with SCB, Mega International Commercial Bank Co., Ltd. Offshore Banking Branch, Chang Hwa Commercial Bank, Ltd. Singapore Branch, First Commercial Bank Offshore Banking Branch, Taiwan Cooperative Bank Manila Offshore Banking Branch, The Bank of East Asia Singapore Branch and Cathay Bank Hong Kong Branch. Events of default under the loan include, among others, non-payment of any principal or interest due in respect of the loan, cross default of any indebtedness, certain events related to insolvency or winding up of the Company, and other events.

As of the date of this Prospectus, the Term Facility has an outstanding balance of U.S.$700 million.

CORPORATE GOVERNANCE

Manual on Corporate Governance

Pursuant to Article 9 of the Revised Code of Corporate Governance, the Manual on Corporate Governance (the "Manual") of the Company was approved by the Board of Directors on August 19, 2011, and was amended on April 11, 2016.

Compliance and Monitoring System

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

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

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

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

Independent Directors

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

Under the SRC, the Company is required to have at least two (2) independent directors in its Board of Directors. The Manual, in turn, requires at least two (2) independent directors to serve on the Audit Committee of the Company and one independent director on each of the Nomination and Hearing Committee and Executive Compensation Committee.

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

Board Committees

Audit Committee

The Audit Committee of SMC Global Power shall be composed of at least three (3) directors, including the two (2) independent directors.

The Audit Committee is responsible for assisting the Board of Directors in the performance of its oversight responsibility for financial reports and financial reporting process, internal control system, audit process, and in monitoring and facilitating compliance with both the internal and financial management handbook and pertinent accounting standards, legal and regulatory requirements. It performs financial oversight management functions, specifically in the areas of managing credit, market liquidity, operational, legal and other risks of SMC Global Power, and crisis management.

On June 7, 2016, the Board of Directors of the Company approved the charter of the Audit Committee. The members of the Audit Committee are Ferdinand K. Constantino, Alan T. Ortiz, Jack G. Arroyo, Jr. and Consuelo M. Ynares-Santiago.

Nomination and Hearing Committee

The Nomination and Hearing Committee of SMC Global Power shall have at least three (3) voting directors, at least one (1) of whom shall be an independent director.

The committee is responsible for making recommendations to the Board of Directors on matters relating to the Directors' appointment, election and succession, with the view of appointing individuals to the Board of Directors with relevant experience and capabilities to maintain and improve the competitiveness of the Company and increase its value. It prescreens and shortlists the nominees in accordance with the qualifications and disqualifications for directors set out in the Manual.

On June 7, 2016, the Board of Directors of the Company approved the charter of the Nomination and Hearing Committee. The members of the Nomination and Hearing Committee are Consuelo M. Ynares-Santiago, Alan T. Ortiz, Virgilio S. Jacinto and Elenita D. Go.

Executive Compensation Committee

The Executive Compensation Committee of SMC Global Power shall be composed of at least three (3) members, one (1) of whom shall be an independent director.

The committee is responsible for advising and assisting the Board of Directors in the establishment of formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of the officers and directors of SMC Global Power, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the culture, strategy and control environment of the Company. It designates the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run SMC Global Power successfully.

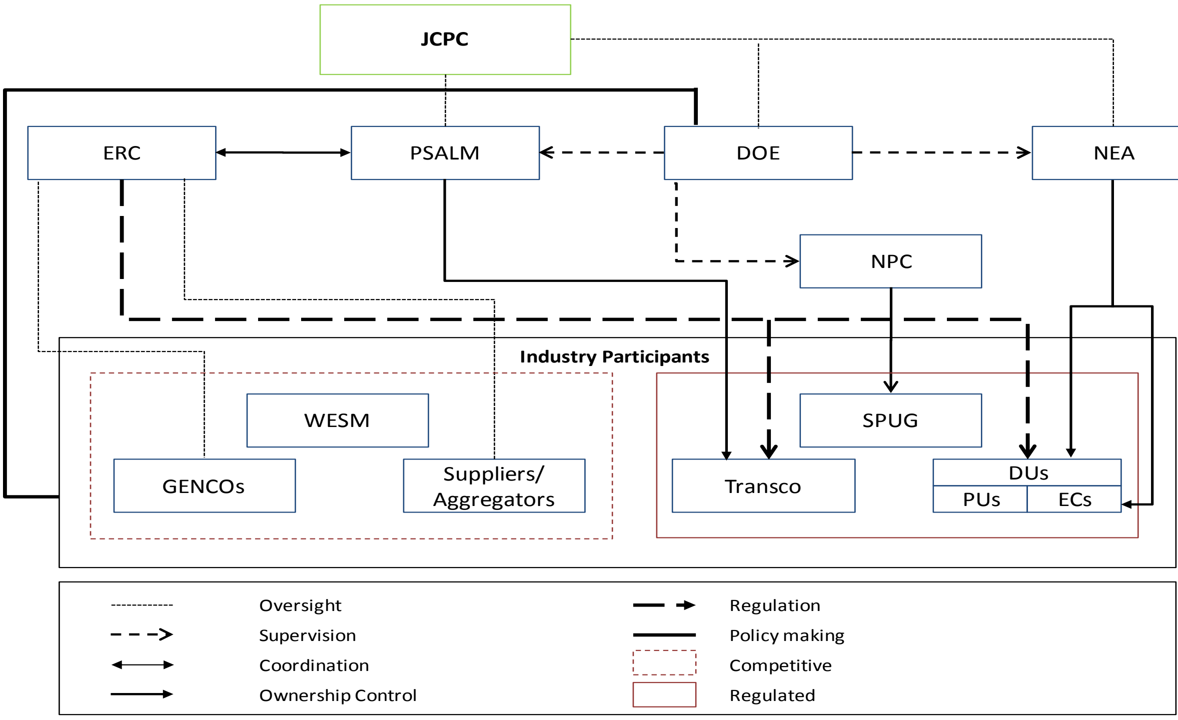
On June 7, 2016, the Board of Directors of the Company approved the charter of the Executive Compensation Committee. The members of the Executive Compensation Committee are Aurora T. Calderon, Ferdinand K. Constantino, and Jack G. Arroyo, Jr.

REGULATORY FRAMEWORK

ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

The EPIRA established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



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

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

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

- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

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

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

Reorganization of the Electric Power Industry

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

The Generation Sector

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

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

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

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

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

No generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility's total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectiveness of the EPIRA.

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

As of December 31, 2015, PSALM has privatized 22 operating/generating power facilities and decommissioned three (3) generating power facilities, with a total combined capacity of 4, 568.43 MW. Moreover, additional seven (7) power plants with total combined capacity of 3, 607.42 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 95.52 Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant.

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

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

The Transmission Sector

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

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

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

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

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

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and
- other matters relating to the planning, management, operation and maintenance of the grid.

The Distribution Sector

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

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

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

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

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

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

The Supply Sector

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

An RES may only sell up to 50% of its total capacity to all of its end-user affiliates, and in no case shall an RES and affiliate RES, acting singly or collectively as one or as an aggregate, be allowed to purchase more than 50% of their capacity requirements from their affiliate generation companies.

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

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

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

(1) Curtailed demand for Mindanao grid.

Role of the ERC

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

Among the primary powers and functions of the ERC are:

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

Role of the DOE

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

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

Role of the Joint Congressional Power Commission

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

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

Competitive Market Devices

WESM

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

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

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

The WESM became operational in the Luzon grid on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of March 23, 2016, there were 755 entities registered as WESM.

Interim Mindanao Electricity Market

The Philippines does not have an integrated grid, and instead has two major regional grids (the integrated Luzon-Visayas grid, and the Mindanao grid) and small islands with isolated grids. Compared to Luzon and Visayas, the Mindanao grid suffers from intermittent outages lasting from two to six hours. Recognizing the urgent need to address the current supply shortage in Mindanao, the DOE directed PEMC to develop and implement an interim electricity market design for Mindanao, known as the Interim Mindanao Electricity Market ("**IMEM**").

The IMEM is a venue for the transparent and efficient utilization of all available capacities in the Mindanao grid and is an immediate solution meant to address the deficiency of electricity supply in Mindanao. It will serve as a trading platform where entities with excess capacities will sell in the IMEM, subject to compensation based on the price determination mechanism duly approved by the ERC. The full commercial operations of the IMEM commenced on December 3, 2013. Since February 27, 2014, however, the IMEM has been under market intervention as initiated by the PEMC due to the Mindanao grid system blackout.

RCOA

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

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

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

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

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

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

Unbundling of Rates and Removal of Cross Subsidies

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

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

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

Implementation of the Performance-Based Regulation (“PBR”)

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

Reduction of Taxes and Royalties on Indigenous Energy Resources

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

Government Approval Process

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

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

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

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

Registration under the Board of Investments

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, a Board of Investments ("**BOI**")-registered enterprise enjoy certain incentives provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by the BOI.

Such incentives may include: (i) income tax holiday; (ii) additional deduction for labor expenses; (iii) tax exemption on imported capital equipment; (iv) tax credit on domestic capital equipment; (v) exemption from contractor's tax; (vi) simplification of customs procedure; (vii) unrestricted use of consigned equipment; (viii) employment of foreign nationals; (ix) tax exemption on imported spare parts; and (x) exemption from wharfage dues and export duties and fees.

Philippine Competition Act

On July 21, 2015, the President of the Philippines signed into law Republic Act No. 10667 or the Philippine Competition Act, which became effective on August 8, 2015. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anticompetitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. Although the Philippine Competition Act is silent on its applicability specifically to the electric power industry, Section 55(c) of the Philippine Competition Act provides that insofar as Section 43(u) of the EPIRA is inconsistent with provisions of the Philippine Competition Act, it shall be repealed. In view of this, the Philippine Competition Commission now has the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed by the ERC in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector. The Implementing Rules and Regulations for the Philippine Competition Act have not yet been issued as of the date of this Offering Circular.

Local Government Code

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

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

Labor and Employment

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

Social Security System, PhilHealth and the Pag-IBIG Fund

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

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

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

Environmental Matters

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

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

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

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

The Clean Water Act

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

The Clean Air Act

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

The Renewable Energy Act

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

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

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

Other Environmental Laws

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

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

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

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

Foreign Investment Act of 1991 ("FIA")

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

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

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

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

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the *Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities.* it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

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

PHILIPPINE TAXATION

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

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

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

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

Taxation of Interest

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

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

Tax-Exempt Status

Bondholders who are exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the underwriters or selling agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) certified true copy of the tax exemption certificate or ruling issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in prescribed form, executed by (a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the applicant purchases the Bonds for its account, or (b) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificate and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar.

Bondholders may sell their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax-exempt entities trading with taxable entities shall be treated as taxable entities for the interest period within which such transfer occurred. Transfers taking place in the Register of Bondholders after the Bonds are listed on the PDEx shall be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of the PDEx and PDTC.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents, specified under the Section entitled “Payment of Additional Amounts; Taxation,” within three days of such transfer.

Value-Added Tax

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

Gross Receipts Tax

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

The Bondholder will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such basis of the Bondholders in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Bondholder has held the Bonds as capital assets.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty, subject to the filing of a tax treaty relief application with the Philippine Bureau of Internal Revenue, or if they are sold outside the Philippines.

Estate and Donor's Tax

The transfer of the Bonds by succession, whether the deceased is a Philippine resident or non-Philippine resident, shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not, in reference to the donor, a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

FINANCIAL INFORMATION

The following pages set forth the audited financial statements of SMC Global Power as at December 31, 2015, 2014 and 2013.

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

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.

We have audited the accompanying consolidated financial statements of SMC Global Power Holdings Corp. (a wholly-owned subsidiary of San Miguel Corporation) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of SMC Global Power Holdings Corp. and Subsidiaries as at December 31, 2015 and 2014, and the consolidated financial performance and consolidated cash flows for each of the three years in the period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which provide that the Parent Company plans to offer and sell its bonds to the public in the Philippines and to list the same in the Philippine Dealing & Exchange Corp. The Parent Company presented its consolidated financial statements as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 to comply with the three-year comparative format under Rule 68 of the Securities Regulation Code, as amended.

R.G. Manabat & Co.

March 17, 2016
Makati City, Metro Manila

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(In Thousands)

	Note	**2015**	2014
ASSETS			
Current Assets			
Cash and cash equivalents	*8, 26, 27*	**P22,241,361**	P38,304,294
Trade and other receivables - net	*4, 9, 18, 26, 27*	**18,473,625**	18,208,339
Inventories	*4, 10*	**1,263,218**	1,365,033
Prepaid expenses and other current assets	*7, 11*	**15,068,747**	9,137,202
Total Current Assets		**57,046,951**	67,014,868
Noncurrent Assets			
Property, plant and equipment - net	*4, 12*	**255,452,996**	228,133,323
Investments and advances - net	*4, 13*	**10,612,937**	10,612,277
Deferred exploration and development costs	*4, 6*	**689,548**	671,783
Intangible assets and goodwill	*4, 6, 14*	**2,413,249**	2,322,241
Deferred tax assets	*4, 23*	**2,745,943**	2,779,380
Other noncurrent assets - net	*15, 18, 26, 27*	**2,248,226**	2,215,415
Total Noncurrent Assets		**274,162,899**	246,734,419
		P331,209,850	P313,749,287

LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*13, 16, 18, 26, 27, 29*	**P32,841,050**	P28,101,112
Finance lease liabilities - current portion	*4, 7, 26, 27*	**16,546,763**	16,205,224
Current maturities of long-term debt - net of debt issue costs	*17, 26, 27*	**15,647,244**	1,330,037
Income tax payable		**99,275**	151,360
Total Current Liabilities		**65,134,332**	45,787,733
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*17, 26, 27*	**42,960,617**	47,383,208
Finance lease liabilities - net of current portion	*4, 7, 26, 27*	**162,646,430**	170,098,521
Deferred tax liabilities	*23*	**3,882,930**	3,043,470
Other noncurrent liabilities	*16, 19, 29*	**150,283**	687,178
Total Noncurrent Liabilities		**209,640,260**	221,212,377
Total Liabilities		**274,774,592**	267,000,110

Forward

	Note	**2015**	2014
Equity	*20*		
Capital stock		**P1,062,504**	P1,062,504
Additional paid-in capital		**2,490,000**	2,490,000
Undated subordinated capital securities		**26,933,565**	13,110,066
Reserves		**785,279**	785,279
Reserve for retirement plan		**(15,648)**	-
Retained earnings		**25,179,558**	29,301,328
Total Equity		**56,435,258**	46,749,177
		P331,209,850	P313,749,287

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands, Except Per Share Data)

	Note	2015	2014	2013
REVENUES	*5, 7, 18, 28*			
Sale of power		**P73,849,465**	P80,080,157	P73,882,922
Retail and other power-related services		**3,657,226**	4,213,433	160,865
		77,506,691	84,293,590	74,043,787
COST AND EXPENSES				
Cost of power sold:				
Energy fees	*5, 7*	**23,224,178**	30,775,896	31,269,293
Coal, fuel oil and other consumables	*5, 7, 10, 18*	**10,376,590**	11,945,280	11,179,322
Power purchases	*5, 7*	**8,330,550**	6,045,468	3,929,184
Depreciation and amortization	*5, 7, 12*	**6,466,398**	6,143,866	5,382,435
Plant operations and maintenance fees	*5, 18, 21*	**502,211**	575,632	194,388
Operating expenses	*5, 7, 18, 21*	**4,904,135**	2,911,930	1,547,750
		53,804,062	58,398,072	53,502,372
		23,702,629	25,895,518	20,541,415
INTEREST INCOME	*8*	**414,444**	549,977	447,843
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*7, 17*	**(13,130,252)**	(13,168,470)	(12,673,891)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES - Net	*13*	**(528,445)**	(22,345)	795,004
GAIN ON SALE OF INVESTMENT	*13*	**-**	-	2,587,044
OTHER INCOME (CHARGES) - Net	*7, 22*	**(5,926,050)**	68,225	(8,491,062)
INCOME BEFORE INCOME TAX		**4,532,326**	13,322,905	3,206,353
INCOME TAX EXPENSE (BENEFIT) - Net	*23, 24*	**2,703,408**	2,693,423	(836,302)
NET INCOME		**P1,828,918**	P10,629,482	P4,042,655
Basic/Diluted Earnings Per Share	*25*	**(P0.07)**	P7.73	P3.23

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands)

	Note	**2015**	2014	2013
NET INCOME		**P1,828,918**	P10,629,482	P4,042,655
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*19*	**(22,354)**	-	-
Income tax benefit	*23*	**6,706**	-	-
Share in other comprehensive income of an associate, net of disposal	*13, 20*	**-**	-	39,306
		15,648	-	39,306
TOTAL COMPREHENSIVE INCOME		**P1,813,270**	P10,629,482	P4,081,961

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands)

	Capital Stock (Note 20)	**Additional Paid-in Capital**	**Undated Subordinated Capital Securities** (Note 20)	**Reserves** (Note 20)	**Reserve for Retirement Plan** (Note 19)	**Retained Earnings** (Note 20)	**Total Equity**
Balance as of January 1, 2015	**P1,062,504**	**P2,490,000**	**P13,110,066**	**P785,279**	**P -**	**P29,301,328**	**P46,749,177**
Net income for the year	-	-	-	-	**-**	**1,828,918**	**1,828,918**
Equity reserve for retirement plan - net of tax	-	-	-	-	**(15,648)**	**-**	**(15,648)**
Total comprehensive income for the year	-	-	-	-	**(15,648)**	**1,828,918**	**1,813,270**
Issuance of undated subordinated capital securities	-	-	**13,823,499**	-	-	**-**	**13,823,499**
Dividends declared	-	-	-	-	-	**(4,500,000)**	**(4,500,000)**
Distributions paid	-	-	-	-	**-**	**(1,450,688)**	**(1,450,688)**
Balance as of December 31, 2015	**P1,062,504**	**P2,490,000**	**P26,933,565**	**P785,279**	**(P15,648)**	**P25,179,558**	**P56,435,258**
Balance as of January 1, 2014	P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843
Issuance of undated subordinated capital securities	-	-	13,110,066	-	-	-	13,110,066
Net income/total comprehensive income for the year	-	-	-	-	-	10,629,482	10,629,482
Dividends declared	-	-	-	-	-	(10,000,000)	(10,000,000)
Distributions paid	-	-	-	-	-	(723,214)	(723,214)
Balance as of December 31, 2014	P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Balance as of January 1, 2013	P1,062,504	P2,490,000	P -	P745,973	P -	P29,852,405	P34,150,882
Net income for the year	-	-	-	-	-	4,042,655	4,042,655
Share in other comprehensive income of an associate - net of tax	-	-	-	39,306	-	-	39,306
Total comprehensive income for the year	-	-	-	39,306	-	4,042,655	4,081,961
Dividends declared	-	-	-	-	-	(4,500,000)	(4,500,000)
Balance as of December 31, 2013	P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843

See Notes to the Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In Thousands)

	Note	**2015**	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P4,532,326**	P13,322,905	P3,206,353
Adjustments for:				
Interest expense and other financing charges	*7, 17*	**13,130,252**	13,168,470	12,673,891
Unrealized foreign exchange losses - net	*26*	**7,505,369**	1,584,500	9,592,617
Depreciation and amortization	*7, 12*	**6,539,813**	6,187,640	5,404,184
Equity in net losses (earnings) of associates and joint ventures - net	*13*	**528,445**	22,345	(795,004)
Impairment losses on trade and other receivables	*9*	**374,801**	144,393	32,850
Retirement benefit expense	*19*	**6,611**	8,978	7,714
Interest income	*8, 9, 15*	**(414,444)**	(549,977)	(447,843)
Gain on sale of investment	*13*	**-**	-	(2,587,044)
Operating income before working capital changes		**32,203,173**	33,889,254	27,087,718
Decrease (increase) in:				
Trade and other receivables - net	*9*	**(749,571)**	(3,037,652)	(1,633,834)
Inventories	*10*	**101,815**	134,102	(314,185)
Prepaid expenses and other current assets	*11*	**(6,647,768)**	(1,902,310)	(240,126)
Other noncurrent assets	*15*	**221,001**	1,290,895	(1,789,482)
Increase (decrease) in:				
Accounts payable and accrued expenses	*16, 29*	**4,686,593**	5,136,893	3,120,373
Other noncurrent liabilities		**(565,860)**	670,486	-
Cash generated from operations		**29,249,383**	36,181,668	26,230,464
Interest income received		**426,480**	546,350	527,661
Finance cost paid	*17*	**(2,907,116)**	(2,196,778)	(800,071)
Income taxes paid		**(1,517,632)**	(1,675,452)	(294,055)
Net cash flows provided by operating activities		**25,251,115**	32,855,788	25,663,999
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to property, plant and equipment	*12*	**(33,832,759)**	(17,299,444)	(19,122,531)
Additions to investments and advances	*13*	**(529,105)**	(4,622,823)	(2,145,936)
Noncurrent receivable	*15*	**(253,812)**	-	-
Additions to intangible assets	*14*	**(117,735)**	(593,649)	-
Additions to deferred exploration and development costs	*6*	**(17,765)**	(145,784)	(200,780)
Proceeds from sale of investment	*9*	**-**	16,228,991	-
Dividends received	*13*	**-**	-	704,407
Net cash flows used in investing activities		**(34,751,176)**	(6,432,709)	(20,764,840)

Forward

	Note	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of undated subordinated capital securities	*20*	**P13,823,499**	P13,110,066	P -
Proceeds from long-term debt	*17*	**8,825,000**	1,500,000	33,191,756
Payments of finance lease liabilities	*7*	**(22,280,118)**	(20,123,987)	(19,146,035)
Cash dividends paid	*20*	**(4,500,000)**	(10,000,000)	(4,500,000)
Distributions to undated subordinated capital securities holders	*20*	**(1,450,688)**	(723,214)	-
Payment of long-term debt	*17*	**(1,373,100)**	(193,200)	(8,708,000)
Net cash flows provided by (used in) financing activities		**(6,955,407)**	(16,430,335)	837,721
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**392,535**	(813,621)	(167,154)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(16,062,933)**	9,179,123	5,569,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**38,304,294**	29,125,171	23,555,445
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P22,241,361**	P38,304,294	P29,125,171

See Notes to the Consolidated Financial Statements.

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

1. Reporting Entity

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

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

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

2. Basis of Preparation

Statement of Compliance

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

The Parent Company plans to offer and sell its bonds to the public in the Philippines and to list the same in the Philippine Dealing & Exchange Corp. The Parent Company presented its consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 to comply with the three-year comparative format under Rule 68 of the Securities Regulation Code, as amended.

The consolidated financial statements are also prepared to comply with the requirements under Section 4.12, *Provision of Financial Statements and Reports*, of the US$300,000 7% Notes due 2016 issued by the Parent Company (Note 17).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 17, 2016.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit liability which is measured at present value of the defined benefit obligation.

Functional and Presentation Currency

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

Basis of Consolidation

The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services and coal mining are incorporated in the Philippines and registered with the Philippine SEC. The subsidiaries are as follows:

		Percentage of Ownership	
	Note	**2015**	2014
Power Generation	*7, 18*		
San Miguel Energy Corporation (SMEC)		**100**	100
South Premiere Power Corp. (SPPC)		**100**	100
Strategic Power Devt. Corp. (SPDC)		**100**	100
SMC PowerGen Inc. (SPI)		**100**	100
Limay Power Generation Corporation [(c)]		**100**	100
SMC Consolidated Power Corporation (SCPC) [(b)]		**100**	100
San Miguel Consolidated Power Corporation (SMCPC) [(b)]		**100**	100
PowerOne Ventures Energy Inc. (PVEI)	*13*	**100**	100
Central Luzon Premiere Power Corp. (CLPPC) [(e)]		**100**	-
Limay Premiere Power Corp. (LPPC) [(b) (e)]		**100**	-
Mariveles Power Generation Corporation (MPGC) [(e)]		**100**	-
Retail and Other Power-related Services	*7, 18*		
San Miguel Electric Corp. (SMELC)		**100**	100
SMC Power Generation Corp. (SPGC)	*13*	**100**	100
Albay Power and Energy Corp. (APEC)		**100**	100
Coal Mining	*6*		
Daguma Agro-Minerals, Inc. (DAMI) [(a)]		**100**	100
Sultan Energy Phils. Corp. (SEPC) [(a)]		**100**	100
Bonanza Energy Resources, Inc. (BERI) [(a)]		**100**	100
Others			
Mantech Power Dynamics Services Inc. (MPDSI) [(e)]		**100**	-
Safetech Power Services Corp. (SPSC) [(e)]		**100**	-
Ondarre Holding Corporation (OHC) [(d)]	*13*	**100**	-
Golden Quest Equity Holdings Inc. (GQEHI) [(a) (e)]		**100**	-
Grand Planters International, Inc. (GPII) [(f)]	*13*	**100**	-

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2015.

(b) Construction of power plants on-going as of December 31, 2015.

(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2015.

(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2015.

(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2015.

(f) Acquired in September 2015.

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

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

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

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

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3. Significant Accounting Policies

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

<u>Adoption of New and Amended Standards and Interpretation</u>
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2015

The Group has adopted the following PFRS effective January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013 contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:

  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment).* PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Disclosures on the Aggregation of Operating Segments *(Amendment to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Scope of Portfolio Exception *(Amendment to PFRS 13, Fair Value Measurement).* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments,* regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.

- Definition of 'Related Party' *(Amendments to PAS 24, Related Party Disclosures).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The adoption of the amendment did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing these consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Disclosure Initiative *(Amendments to PAS 1, Presentation of Financial Statements).* The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted IFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 15 replaces International Accounting Standards (IAS) 11, *Construction Contracts*, IAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes,* IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee (PIC) on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2015 and 2014, the Group has no financial assets at FVPL, AFS financial assets and HTM investments.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 8, 9, 15, 26 and 27).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

As of December 31, 2015 and 2014, the Group has no financial liabilities at FVPL.

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

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, finance lease liabilities and long-term debt are included under this category (Notes 7, 16, 17, 26 and 27).

Embedded Derivatives

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

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

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

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

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

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

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

The Group does not have any embedded derivatives as of December 31, 2015 and 2014.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using specific identification method or first-in-first-out method for materials and supplies, specific identification method or moving average method for coal inventories and moving average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

Business Combination

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

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

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

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

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

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

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

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

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

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

- *Loss of Control*
  On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in consolidated statements of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

<u>Transactions under Common Control</u>
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Non-controlling Interests

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

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

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

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

The Group's share in profit or loss of associates or joint ventures is recognized as "Equity in net earnings (losses) of associates and joint ventures - net" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income of an associate" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of associates or joint ventures is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of associates or joint ventures. Such impairment loss is recognized as part of "Equity in net earnings (losses) of associates and joint ventures - net" account in the consolidated statements of income.

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Power plants	10 - 43
Building	15 - 25
Other equipment	2 - 15
Leasehold improvements	5 - 10 or term of the lease whichever is shorter

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

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

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

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

Intangible Assets

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

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

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

	Number of Years
Power concession right	25
Mining rights	Life of mine or expiration of right
Computer software and licenses	3

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

Power Concession Assets and Obligations

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

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

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

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

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

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

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs. If an entity performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date, to estimated total costs for each contract. The applicable entity account for revenue and costs relating to operation services in accordance with PAS 18.

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

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

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

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

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

Mining Rights

The mining rights that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

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

Amortization of mining rights is recognized in the consolidated statements of income on a straight-line basis over the estimated useful lives. The estimated useful lives of mining rights pertain to the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

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

Deferred Exploration and Development Costs

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and intangible assets and goodwill with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

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

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

Undated Subordinated Capital Securities

Undated subordinated capital securities are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

Retained Earnings

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

Others

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend. Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

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

Gain on Sale of Investment. Gain or loss is recognized if the Group disposes of its investments in a subsidiary, associate or joint venture. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition

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

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

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retirement benefit expense comprise the following:

- Service costs
- Net interest on the defined benefit liability or asset
- Remeasurements of defined benefit liability or asset

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

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

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

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

Foreign Currency Translations

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

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

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of USCS, by the weighted-average number of issued and outstanding common shares during the period.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

As of December 31, 2015, 2014 and 2013, the Group has no dilutive equity instruments as disclosed in Note 25 to the consolidated financial statements.

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 12).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P179,193,193 and P186,303,745 as of December 31, 2015 and 2014, respectively (Note 7).

The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively (Note 12).

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

Rent income recognized in the consolidated statements of income amounted to P28,104, P18,434 and nil in 2015, 2014 and 2013, respectively (Note 22).

Rent expense recognized in the consolidated statements of income amounted to P360,091, P115,849 and P24,167 in 2015, 2014 and 2013, respectively (Note 21).

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

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation and should be accounted for under the intangible asset model (Notes 3, 7 and 14).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group's management and legal counsels currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 28).

Estimates and Assumptions

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 27.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P1,241,487 and P866,686 as of December 31, 2015 and 2014, respectively. The carrying amount of trade and other receivables amounted to P18,473,625 and P18,208,339 as of December 31, 2015 and 2014, respectively (Note 9).

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

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

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2015 and 2014.

The carrying amount of inventories amounted to P1,263,218 and P1,365,033 as of December 31, 2015 and 2014, respectively (Note 10).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P255,452,996 and P228,133,323 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P33,916,821 and P27,404,427 as of December 31, 2015 and 2014, respectively (Note 12).

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

Intangible assets with finite useful lives amounted to P2,404,383 and P2,313,375 as of December 31, 2015 and 2014, respectively (Note 14).

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

The carrying amount of goodwill amounted to P8,866 as of December 31, 2015 and 2014 (Note 14).

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

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

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

The Group’s mining activities are all in the exploratory stages as of December 31, 2015. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2015 and 2014.

Deferred exploration and development costs amounted to P689,548 and P671,783 as of December 31, 2015 and 2014, respectively (Note 6).

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

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 23).

Deferred tax assets from temporary differences amounted to P2,745,943 and P2,779,380 as of December 31, 2015 and 2014, respectively (Note 23).

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

The Group assessed that its non-financial assets are not impaired as of December 31, 2015 and 2014.

The combined carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P269,159,864 and P241,730,758 as of December 31, 2015 and 2014, respectively (Notes 6, 12, 13 and 14).

Present Value of Defined Benefit Obligation. The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 19 to the consolidated financial statements and include discount rate and salary increase rate.

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

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

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

The present value of defined benefit obligation amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively (Note 19).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2015 and 2014.

5. Segment Information

Operating Segments

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

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the exploratory stage of mining activities (Note 6). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2015 and 2014, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

The Group's inter-segment sale of power are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Segment assets do not include investments and advances, intangible assets and goodwill and deferred tax assets. The investment in Manila Electric Company (Meralco) and subsequent transactions affecting investment in Meralco are presented under "Others". Segment liabilities do not include long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

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

Major Customers
The Group sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	2015	2014	2013
Meralco	**P40,889,098**	P47,233,747	P46,952,999
WESM	**6,217,243**	9,622,839	10,770,643

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

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31																	
	Power Generation			**Retail and Other Power-related Services**			**Coal Mining**			**Others**			**Eliminations**			**Consolidated**		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Sale of Power																		
External	**P73,849,465**	P80,080,157	P73,882,922	**P3,657,226**	P4,213,433	P160,865	**P -**	P -	P -	**P -**	P -	P -	**P -**	P -	P -	**P77,506,691**	P84,293,590	P74,043,787
Inter-segment	**6,769,834**	4,872,675	2,103,653	**-**	-	-	**-**	-	-	**-**	-	-	**(6,769,834)**	(4,872,675)	(2,103,653)	**-**	-	-
	80,619,299	84,952,832	75,986,575	**3,657,226**	4,213,433	160,865	-	-	-	-	-	-	**(6,769,834)**	(4,872,675)	(2,103,653)	**77,506,691**	84,293,590	74,043,787
Cost and Expenses																		
Cost of power sold	**51,933,914**	56,304,969	53,919,111	**3,723,643**	4,053,848	139,164	**-**	-	-	**-**	-	-	**(6,757,630)**	(4,872,675)	(2,103,653)	**48,899,927**	55,486,142	51,954,622
Operating expenses	**4,791,985**	2,697,961	1,635,443	**226,397**	37,204	7,951	**17,831**	23,919	15,345	**1,294,215**	767,846	504,093	**(1,426,293)**	(615,000)	(615,082)	**4,904,135**	2,911,930	1,547,750
	56,725,899	59,002,930	55,554,554	**3,950,040**	4,091,052	147,115	**17,831**	23,919	15,345	**1,294,215**	767,846	504,093	**(8,183,923)**	(5,487,675)	(2,718,735)	**53,804,062**	58,398,072	53,502,372
Segment Result	**23,893,400**	25,949,902	20,432,021	**(292,814)**	122,381	13,750	**(17,831)**	(23,919)	(15,345)	**(1,294,215)**	(767,846)	(504,093)	**1,414,089**	615,000	615,082	**23,702,629**	25,895,518	20,541,415
Interest income																**414,444**	549,977	447,843
Interest expense and other financing charges																**(13,130,252)**	(13,168,470)	(12,673,891)
Equity in net earnings (losses) of associates and joint ventures - net																**(528,445)**	(22,345)	795,004
Gain on sale of investment																**-**	-	2,587,044
Other income (charges) - net																**(5,926,050)**	68,225	(8,491,062)
Income tax expense - net																**(2,703,408)**	(2,693,423)	836,302
Consolidated Net Income																**P1,828,918**	P10,629,482	P4,042,655

	For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Other Information												
Segment assets	**P297,302,968**	P249,966,190	**P2,773,437**	P2,419,373	**P749,318**	P683,275	**P45,618,031**	P54,904,121	**(P31,006,033)**	(P9,937,570)	**P315,437,721**	P298,035,389
Investments and advances - net	**4,566,249**	1,975,929	**192,012**	191,549	**-**	-	**43,451,916**	8,444,799	**(37,597,240)**	-	**10,612,937**	10,612,277
Intangible assets and goodwill											**2,413,249**	2,322,241
Deferred tax assets											**2,745,943**	2,779,380
Consolidated Total Assets											**P331,209,850**	P313,749,287
Segment liabilities	**P240,770,768**	P213,097,395	**P2,788,300**	P2,081,602	**P763,125**	P74,665	**P1,613,602**	P9,875,451	**(P33,751,269)**	(P10,037,078)	**P212,184,526**	P215,092,035
Long-term debt											**58,607,861**	48,713,245
Income tax payable											**99,275**	151,360
Deferred tax liabilities											**3,882,930**	3,043,470
Consolidated Total Liabilities											**P274,774,592**	P267,000,110
Capital expenditures	**P31,066,140**	P38,878	**P2,893**	P -	**P48**	P15,087	**P2,763,740**	P17,425,124	**P -**	P -	**P33,832,821**	P17,479,089
Depreciation and amortization of property, plant and equipment and intangible assets	**6,469,103**	6,143,959	**21,394**	14,686	**15,136**	18,098	**22,181**	10,897	**11,999**	-	**6,539,813**	6,187,640
Noncash items other than depreciation*	**6,363,892**	1,021,839	**164,633**	11,074	**-**	(23)	**2,051,797**	93,335	**(165,097)**	-	**8,415,225**	1,126,225

**Noncash items other than depreciation and amortization include unrealized foreign exchange gain/losses, impairment losses on trade and other receivables, equity in net earnings (losses) of associates and joint ventures - net and retirement benefit expense.*

6. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	2015	2014
Balance at beginning of year	**P671,783**	P525,999
Additions	**17,765**	145,784
Balance at end of year	**P689,548**	P671,783

SMEC acquired DAMI, SEPC and BERI in 2010 resulting in the recognition of mining rights of P1,719,726 (Note 14).

DAMI's coal property covered by Coal Operating Contract (COC) No. 126, issued by the Department of Energy (DOE), is located in South Cotabato and consists of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 93 million metric tons as of December 31, 2015.

SEPC has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2015, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 24 million metric tons as of December 31, 2015.

Status of Operations
In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

As of December 31, 2015, DAMI, SEPC and BERI is in the exploratory stages of its mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

The Group has not identified any facts and circumstances which suggest that the carrying amount of deferred exploration and development costs exceeded recoverable amount as of December 31, 2015 and 2014.

7. Agreements

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

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

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

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

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

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

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

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

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

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

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

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

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees in 2015, 2014 and 2013 amounted to P23,224,178, P30,775,896 and P31,269,293, respectively. SMEC, SPDC and SPPC renewed their performance bonds in United States dollar (US$) amounting to US$58,187, US$20,305 and US$60,000 which will expire on November 3, 2016, January 25, 2016 and June 16, 2016, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2017.

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

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

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense in 2015, 2014 and 2013 amounted to P10,212,753, P10,711,071 and P10,983,520, respectively.

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

2015	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than 1 year	**US$250,209**	**P11,774,823**	**P11,980,712**	**P23,755,535**
More than 1 year and not later than 5 years	**1,071,953**	**50,446,106**	**51,333,916**	**101,780,022**
Later than 5 years	**1,118,634**	**52,642,925**	**53,617,024**	**106,259,949**
	2,440,796	**114,863,854**	**116,931,652**	**231,795,506**
Less: Future finance charges on finance lease liabilities	**383,180**	**18,032,425**	**34,569,888**	**52,602,313**
Present values of finance lease liabilities	**US$2,057,616**	**P96,831,429**	**P82,361,764**	**P179,193,193**

2014	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US$238,557	P10,668,258	P11,423,146	P22,091,404
More than 1 year and not later than 5 years	1,027,007	45,927,750	49,178,287	95,106,037
Later than 5 years	1,413,789	63,224,641	67,753,365	130,978,006
	2,679,353	119,820,649	128,354,798	248,175,447
Less: Future finance charges on finance lease liabilities	462,375	20,677,383	41,194,319	61,871,702
Present values of finance lease liabilities	US$2,216,978	P99,143,266	P87,160,479	P186,303,745

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

2015	**US Dollar Payments**	**Peso Equivalent of US Dollar Payments**	**Peso Payments**	**Total**
Not later than 1 year	**US$197,094**	**P9,275,262**	**P7,271,501**	**P16,546,763**
More than 1 year and not later than 5 years	**767,797**	**36,132,517**	**25,606,142**	**61,738,659**
Later than 5 years	**1,092,725**	**51,423,650**	**49,484,121**	**100,907,771**
	US$2,057,616	**P96,831,429**	**P82,361,764**	**P179,193,193**

2014	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US$194,970	P8,719,059	P7,486,165	P16,205,224
More than 1 year and not later than 5 years	764,915	34,206,990	26,604,935	60,811,925
Later than 5 years	1,257,093	56,217,217	53,069,379	109,286,596
	US$2,216,978	P99,143,266	P87,160,479	P186,303,745

b. Market Participation Agreements (MPA)

SMEC, SPDC and SPPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. In 2015, 2014 and 2013, PEMC’s market fees charged to SMEC, SPDC and SPPC amounted to P219,681, P233,701 and P246,591, respectively (Note 21).

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2016, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SMELC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC and SPDC purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

d. Coal Supply Agreements

SMEC and SPI, through its operation and maintenance (O&M) service provider, have supply agreements with various coal suppliers for their power plants' coal requirements.

e. Operations and Maintenance Services Agreement

In exchange for the O&M services rendered by Petron Corporation (Petron), an entity under common control, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of the power plant. The agreement is effective for 25 years from September 2013 until 2038.

f. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM and SMEC. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

g. Lease Agreements

Group as Lessee

i. The Group has operating lease agreements with San Miguel Properties, Inc. (SMPI), an entity under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.

ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVRC), an entity under common control. The existing lease agreement is for a 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3.0% per annum escalation rate for the 4 years following the negotiation under the lease terms.

iii. SMEC entered into a lease agreement with Challenger Aero Air Corporation (Challenger), an entity under common control, for the lease of certain aircrafts for a period of 1 year from October 1, 2014 to September 30, 2015.

The lease agreement was pre-terminated on April 30, 2015.

Subsequently, SMEC entered into a new lease agreement with Challenger for the lease of the same aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016 for a monthly rental of P25,000. Under the terms of the agreement, SMEC paid security deposits amounting to P572,876.

iv. On November 3, 2015, SCPC leased a parcel of land with a total area of 96,663 square meters from NVRC for a period of 25 years from the effective date. SCPC has the option to renew the lease for a further 25 years. Upon execution of the agreement, the lump sum of P23,786 and a monthly rental of P1,081 covering 1 year is paid in advance. The monthly rental rate of P1,081 shall be increased annually by 6.0% starting with the second anniversary of the lease execution.

v. On November 5, 2015, SCPC entered into another agreement with NVRC for the lease of a parcel of land with a total area of 274,265 square meters for the development and construction of an Ash Dump Facility for its power plant. The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. The rental rate is P1,371 for the first twelve months and thereafter, on each anniversary of the lease execution, the monthly rental shall be increased by 5.5%.

vi. On December 7, 2015, LPPC leased a total of 11,008 square meters from NVRC for a period of 25 years from the effective date. LPPC has the option to renew this lease for another 25 years. The rental rate is P2,300 for the first 12 months and thereafter, starting with the second anniversary of the lease execution, the agreed monthly rental shall be increased annually by 6.0%.

vii. DAMI leases its land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The monthly rental rate is P28 for the first 12 months, subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in “Deferred exploration and development costs” account in the consolidated statements of financial position, amounted to P405 and P336 as of December 31, 2015 and 2014, respectively.

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

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

	2015	2014	2013
Within 1 year	**P63,593**	P24,732	P23,270
After 1 year but not more than 5 years	**138,776**	26,315	62,289
More than 5 years	**1,381,648**	2	-
	P1,584,017	P51,049	P85,559

Rent expense recognized in the consolidated statements of income amounted to P360,091, P115,849 and P24,167 in 2015, 2014 and 2013, respectively (Note 21).

Group as Lessor

i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties.

ii. In July 2011, GPII entered into an agreement with Limay Energen Corporation (LEC), an entity under common control, to lease a parcel of land located in Limay, Bataan, with a total area of 25,981 square meters. The lease term is for a period of 10 years up to July 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P2,033 with an escalation rate of 3.0% every year from signing of the contract. LEC executed a deed of assignment lease on July 19, 2012, assigning all rights and obligations to the leased area to Petron. Petron is the assignee for the remaining period of the lease effective June 1, 2012.

iii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P1,983 with an escalation rate of 3.0% every year from signing of the contract. This Agreement was amended on December 29, 2015, reducing the leased area to 340,646 square meters effective October 1, 2013.

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

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

	2015	2014
Within 1 year	**P46,517**	P7,200
After 1 year but not more than 5 years	**183,394**	3,957
More than 5 years	**20,204**	-
	P250,115	P11,157

Rent income recognized in the consolidated statements of income amounted to P28,104, P18,434 and nil in 2015, 2014 and 2013, respectively (Note 22).

h. Concession Agreement

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

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); ii) if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO formally turned over the operations to APEC on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P159,086 and P111,995 as of December 31, 2015 and 2014, respectively. Interest expense on concession payable is included as part of “Interest expense and other financing charges” account in the consolidated statements of income amounted to P6,254, P4,769 and nil in 2015, 2014 and 2013, respectively. Amortization of concession assets recognized in the “Depreciation and amortization” account in the consolidated statements of income amounted to P21,296, P14,610 and nil in 2015, 2014 and 2013, respectively.

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

	2015	2014
Within 1 year	**P2,273**	P2,146
After 1 year but not more than 5 years	**10,515**	9,929
More than 5 years	**94,110**	96,969
	P106,898	P109,044

Power concession assets consist of:

	Note	**2015**	2014
Cost			
Balance at beginning of year		**P496,312**	P -
Additions		**47,091**	496,312
Balance at end of year		**543,403**	496,312
Accumulated Amortization			
Balance at beginning of year		**14,610**	-
Amortization		**21,296**	14,610
Balance at end of year		**35,906**	14,610
	14	**P507,497**	P481,702

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P47,091, P111,995 and nil in 2015, 2014 and 2013, respectively.

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

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

Revenue from sale of capacity of the San Roque Power Plant amounted to P1,274,893, P1,488,437 and P577,192 in 2015, 2014 and 2013, respectively, and was recognized as part of "Sale of power" account in the consolidated statements of income.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2015**	2014
Cash in banks and on hand		**P4,390,785**	P9,043,630
Short-term investments		**17,850,576**	29,260,664
	26, 27	**P22,241,361**	P38,304,294

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income from cash and cash equivalents amounted to P261,338, P356,852 and P384,637 in 2015, 2014 and 2013, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2015**	2014
Trade	*18*	**P13,448,756**	P13,195,630
Other receivables		**6,266,356**	5,879,395
		19,715,112	19,075,025
Less allowance for impairment losses:			
Trade	*18*	**1,031,784**	866,686
Other receivables		**209,703**	-
		1,241,487	866,686
	26, 27	**P18,473,625**	P18,208,339

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

The movements in the allowance for impairment losses on trade and other receivables are as follows:

	2015	2014
Balance at beginning of year	**P866,686**	P722,293
Impairment losses during the year	**374,801**	144,393
Balance at end of year	**P1,241,487**	P866,686

Impairment losses is recognized in profit or loss as follows:

	Note	**2015**	2014	2013
Operating expenses	*21*	**P142,658**	P144,393	P32,850
Other income (charges)	*22*	**232,143**	-	-
		P374,801	P144,393	P32,850

The aging of trade and other receivables as of December 31 are as follows:

	2015			2014		
	Trade	**Other Receivables**	**Total**	Trade	Other Receivables	Total
Current	**P6,318,467**	**P876,542**	**P7,195,009**	P6,703,992	P3,298,074	P10,002,066
Past due:						
Less than 30 days	**577,945**	**51,634**	**629,579**	1,125,712	137,125	1,262,837
30-60 days	**376,895**	**54,940**	**431,835**	574,608	141,560	716,168
61-90 days	**201,639**	**2,938,954**	**3,140,593**	194,855	3,097	197,952
Over 90 days	**5,973,810**	**2,344,286**	**8,318,096**	4,596,463	2,299,539	6,896,002
	P13,448,756	**P6,266,356**	**P19,715,112**	P13,195,630	P5,879,395	P19,075,025

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality. There were no write-offs or reversals in 2015, 2014 and 2013.

Other receivables include the following:

a. On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. For the years ended December 31, 2015 and 2014, HCML and Caason has paid a total amount of P107,086 and P119,841, respectively, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to P105,735, P118,824 and P25,015 in 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, total outstanding receivables from HCML amounted to P203,099 (net of allowance for impairment loss) and P566,155, respectively.

b. Pursuant to the MOA in respect of excess capacity of Sual Power Station, SMEC has receivables from Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (TSC) for their share in fuel, market fees, coal and other charges related to the operation of the Sual Power Plant amounting to P33,658 and P59,871 as of December 31, 2015 and 2014, respectively. Likewise, SMEC has receivables from TPEC for share in WESM transactions amounting to P1,083,353 and P926,583 as of December 31, 2015 and 2014, respectively.

c. Due from PSALM amounting to US$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court of Mandaluyong City (Note 28).

d. Advances to suppliers for the deposits made to certain suppliers in 2014 for the ongoing construction of 2 x 150 Mega Watt (MW) Coal-Fired Power Plant.

e. The Parent Company's receivable from the sale of investment in an associate amounting to P16,228,991. The Parent Company collected the receivable from J.G. Summit Holdings, Inc. (J.G. Summit) in 2014 (Note 13).

f. The balance mainly pertains to receivables from customers related to power rate adjustments which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	Note	**2015**	2014
Coal	*7, 18*	**P1,079,086**	P1,179,585
Materials and supplies		**109,820**	86,242
Fuel oil	*18*	**67,599**	93,402
Other consumables		**6,713**	5,804
		P1,263,218	P1,365,033

There were no inventory write-downs to net realizable value for the years ended December 31, 2015 and 2014. Inventories charged to cost of power sold amounted to P10,376,590, P11,945,280 and P11,179,322 in 2015, 2014 and 2013, respectively.

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	2015	2014
Input VAT		**P10,960,202**	P7,389,026
Prepaid tax		**2,253,885**	1,296,666
Prepaid rent and others	*7, 18*	**1,854,660**	451,510
		P15,068,747	P9,137,202

Input VAT consists of current and deferred input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 16).

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

Prepaid rent and others pertain to the following:

a. Prepaid rent of the Group from various operating lease agreements amounted to P61,961 and P12,173 as of December 31, 2015 and 2014, respectively (Note 7).

b. PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2015.

c. Professional services related to project financing of SCPC (Note 28).

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants (Note 7)	Building	Land and Leasehold Improvements	Other Equipment	Capital Projects in Progress	Total
Cost						
January 1, 2014	P221,760,866	P3,480,934	P346,602	P960,758	P11,705,540	P238,254,700
Additions	-	-	46	98,542	17,380,501	17,479,089
Disposals	-	-	-	-	(82,420)	(82,420)
Reclassifications	5,027,966	2,350,163	-	98,776	(7,590,524)	(113,619)
December 31, 2014	226,788,832	5,831,097	346,648	1,158,076	21,413,097	255,537,750
Additions	-	10,346	2,649,691	159,223	31,013,561	33,832,821
Disposals	-	-	-	(754)	-	(754)
December 31, 2015	**226,788,832**	**5,841,443**	**2,996,339**	**1,316,545**	**52,426,658**	**289,369,817**
Accumulated Depreciation and Amortization						
January 1, 2014	21,126,707	45,193	9,750	51,531	-	21,233,181
Additions	5,803,956	220,638	36,481	110,171	-	6,171,246
December 31, 2014	26,930,663	265,831	46,231	161,702	-	27,404,427
Additions	6,030,650	301,958	44,848	135,629	-	6,513,085
Disposals	-	-	-	(691)	-	(691)
December 31, 2015	**32,961,313**	**567,789**	**91,079**	**296,640**	**-**	**33,916,821**
Carrying Amount						
December 31, 2014	P199,858,169	P5,565,266	P300,417	P996,374	P21,413,097	P228,133,323
December 31, 2015	**P193,827,519**	**P5,273,654**	**P2,905,260**	**P1,019,905**	**P52,426,658**	**P255,452,996**

a. The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively.

b. On September 23, 2013, SPI acquired from Petron a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures being constructed and installed which comprise the additional 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant in Bataan, for a total consideration of P16,800,000, inclusive of tax (Note 18). The power plant is used as collateral in securing a loan obtained by SPI from syndicated banks (Note 17).

c. Additions to building, land and leasehold improvements and other equipment include acquisition of assets of OHC and GPII for the Group’s power plant expansion projects (Note 13).

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

e. Capital projects in progress pertains to the following:

    i. Project of SMCPC for the construction of 2 x 150 MW Coal-Fired Power Plant in Malita, Davao.

    ii. Projects of SCPC and LPPC for the construction of the 2 x 150 MW Coal-Fired Power Plants each in Limay, Bataan.

    iii. Construction of limestone pulverizing plant and petcoke handling facility of SPI.

    iv. Plant optimization and pumped-storage hydropower projects of SPDC.

    v. SMEC, as IPP Administrator, and TSC, as IPP and operator of the Sual Power Plant, intend to improve the coal receiving and unloading capability of the Sual Power Plant as well as increase the coal shipment deliveries thereto (Note 7).

       On September 9, 2014, SMEC agreed to provide an additional coal unloader (the Third Unloader) to the Sual Power Plant while TSC agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering, however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the intention of both parties to improve the unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024 and is recognized as part of “Donations” under “Operating expenses” account in the consolidated statements of income (Note 21).

    vi. Computer and system installations, and upgrades and implementation of accounting system recognized as part of capital projects in progress were reclassified to “Intangible assets and goodwill” account in the consolidated statements of financial position in 2014 (Note 14).

Depreciation and amortization are recognized in profit or loss as follows:

	Note	**2015**	2014	2013
Cost of power sold		**P6,445,102**	P6,129,256	P5,382,435
Operating expenses	*21*	**73,415**	43,774	21,749
		P6,518,517	P6,173,030	P5,404,184

Total depreciation and amortization recognized in profit or loss include annual amortization of capitalized interest amounting to P13,360, P4,453 and nil in 2015, 2014 and 2013, respectively.

The Group has interest amounting to P105,549, P254,539 and P84,367 which were capitalized in 2015, 2014 and 2013, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P446,789 and P349,498 as of December 31, 2015 and 2014, respectively.

13. Investments and Advances

Investments and advances consist of:

	2015	2014
Cost		
Balance at beginning of year	**P2,074,051**	P301,208
Additions	**1**	1,830,054
Adjustment to subscription payable	**-**	(57,211)
Balance at end of year	**2,074,052**	2,074,051
Accumulated Equity in Net Losses		
Balance at beginning of year	**(63,719)**	(41,374)
Equity in net losses during the year	**(526,463)**	(32,231)
Adjustment to equity in net earnings (losses) in prior year	**(1,982)**	9,886
Balance at end of year	**(592,164)**	(63,719)
	1,481,888	2,010,332
Advances	**9,131,049**	8,601,945
	P10,612,937	P10,612,277

The Group's investments pertain to the following:

a. Olongapo Electricity Distribution Company, Inc. (OEDC)

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

   As of December 31, 2015 and 2014, carrying amount of investment in OEDC amounted to P192,012 and P191,550, respectively. Subscription payable amounted to P28,101 as of December 31, 2015 and 2014 (Note 16).

The table below summarizes the financial information of investment in shares of stock of an associate which is accounted for using the equity method:

	2015 (Unaudited)	2014 (Audited)
Country of Incorporation	**Philippines**	Philippines
Current assets	**P421,640**	P390,447
Noncurrent assets	**1,098,207**	1,024,781
Current liabilities	**(655,189)**	(899,921)
Noncurrent liability	**(353,812)**	(9,884)
Net assets	**P510,846**	P505,423
Revenue	**P1,298,687**	P1,234,670
Net income (losses)/total comprehensive income (losses)	**P7,748**	(P66,309)
Share in net income (losses)/total comprehensive income (losses)	**P2,712**	(P23,208)

b. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

In accordance with the agreement of the Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US$26,448 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US$39,236 and P15 as full payment of the share purchase price of Angat Hydro and KWPP shares, respectively. The payment was funded in part by the deposit in escrow.

In accordance with the entry of PVEI into Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3.0% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015.

Angat Hydro

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

Details of investments in Angat Hydro and KWPP are as follows:

December 31, 2015	**Angat Hydro**	**KWPP**
Cost		
Balance at beginning of year	**P1,830,039**	**P15**
Additions	**1**	**-**
Balance at end of year	**1,830,040**	**15**
Accumulated Equity in Net Losses		
Balance at beginning of year	**(11,257)**	**(15)**
Equity in net losses during the year	**(529,174)**	**-**
Adjustment to equity in net losses prior period	**267**	**-**
Balance at end of year	**(540,164)**	**(15)**
	P1,289,876	**P -**

December 31, 2014	Angat Hydro	KWPP
Acquisition cost	P1,830,039	P15
Equity in net losses during the year	(11,257)	(15)
	P1,818,782	P -

Unrecognized share in net losses in excess of the Group's interest in KWPP amounted to P171 and nil on December 31, 2015 and 2014, respectively.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2015 (Unaudited)

	Angat Hydro	**KWPP**
Country of Incorporation	**Philippines**	**Philippines**
Current assets	**P1,143,612**	**P2,049**
Noncurrent assets	**19,716,594**	**19,651**
Current liabilities	**(20,861,349)**	**(4,957)**
Noncurrent liabilities	**(17,693)**	**(17,583)**
Net liabilities	**(P18,836)**	**(P840)**
Revenue	**P1,248,800**	**P -**
Net losses/total comprehensive losses	**(P881,957)**	**(P285)**
Share in net losses/total comprehensive losses	**(P529,174)**	**(P171)**

December 31, 2014 (Audited)

	Angat Hydro	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P407,488	P76
Noncurrent assets	20,187,319	17,783
Current liabilities	(19,713,866)	(630)
Noncurrent liabilities	(17,819)	(17,783)
Net assets (liabilities)	P863,122	(P554)
Revenue	P153,772	P -
Net losses/total comprehensive losses	(P72,591)	(P470)
Share in net losses/total comprehensive losses*	(P10,990)	(P15)

**44 day share in net losses/total comprehensive losses for the period from November 18 to December 31, 2014 of Angat Hydro and KWPP.*

c. Acquisition of OHC and GPII

On February 10, 2015, the Parent Company acquired 100% outstanding capital stock of OHC for a total consideration amount of P588,050, inclusive of transaction costs. OHC is engaged in the business of acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds; to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances; and to carry on, provide support and manage the general business of any corporation, entity or joint venture.

On September 4, 2015, the Parent Company acquired 100% outstanding capital stock of GPII for a total consideration amount of P1,820,972, inclusive of transaction costs. GPII's primary purpose is to carry on and engage in the business of developing and converting the properties in Limay, Bataan into a multi-use industrial park with all the necessary amenities, in joint venture with any person or entity.

The following summarizes the recognized fair value of net assets acquired from OHC and GPII at the acquisition date:

	OHC	**GPII**
Current assets	**P37,609**	**P126,317**
Noncurrent assets	**550,441**	**2,071,882**
Current liabilities	**-**	**(5,940)**
Noncurrent liabilities	**-**	**(371,287)**
Net assets	**P588,050**	**P1,820,972**

In accordance with criteria set out in paragraph 2 of PFRS 3 and based on PIC Question and Answer No. 2011 - 06 PFRS 3 (2008), and PAS 40, Investment Property - *Acquisition of Investment Properties - Asset Acquisition or Business Combination,* the Parent Company is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3.

d. Meralco

In 2012, investment in an associate consists of 69,059,538 quoted common stock of Meralco, representing 6.13% ownership interest. The Parent Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 32.04% interest in Meralco. Accordingly, the Parent Company applied the equity method of accounting on its investment in shares of stock of Meralco. The equity share in the net earnings of Meralco in 2013 amounted to P836,377.

The Parent Company received cash dividends amounting to P704,407 in 2013.

On September 30, 2013, the Parent Company, together with SMC and San Miguel Pure Foods Company, Inc., entered into a Share Purchase Agreement with J.G. Summit, for the sale of the Parent Company's 69,059,538 shares of stock of Meralco for P16,228,991. The sale is subject to the satisfaction of certain closing conditions, which were satisfied by all the parties on December 11, 2013. As a result of the sale, the Group recognized a gain of P2,587,044, net of expenses, included as part of "Gain on sale of investment" account in the 2013 consolidated statement of income (Note 9).

Advances pertain to deposits made for future investment in land holding companies and power-related expansion projects.

14. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	Note	**2015**	2014
Mining rights	*6*	**P1,719,726**	P1,719,726
Power concession assets - net	*7*	**507,497**	481,702
Computer software		**177,160**	111,947
Goodwill		**8,866**	8,866
		P2,413,249	P2,322,241

Goodwill is attributed to the Group's acquisition of SMEC and SPDC in 2010. Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2015 and 2014.

15. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2015**	2014
Restricted cash	*26, 27*	**P1,311,740**	P1,054,801
Deferred input VAT - net of current portion		**682,674**	980,057
Noncurrent receivable	*18, 26, 27*	**253,812**	179,129
Advances to suppliers		**-**	1,428
		P2,248,226	P2,215,415

Restricted cash represents: (a) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank, as part of the provisions in SPI's Facility Agreement, amounting to P1,208,870 and P1,021,163 as of December 31, 2015 and 2014, respectively (Note 17); and (b) APEC's collected contributions from consumers, membership fees and bill deposits amounting to P102,870 and P33,638 as of December 31, 2015 and 2014, respectively (Note 7).

The deferred input VAT mainly pertains to the input VAT on the purchase of power plant from Petron (Note 17).

Noncurrent receivable pertains to loan granted by SPGC to OEDC which is payable in equal monthly payments of principal and interest at 4.7252% commencing on January 1, 2017 and thereafter on the first day of each month until December 2024 (Note 18). In 2014, this represents receivable from a third party for the sale of the Parent Company's 100% ownership interest in Panasia Energy, Inc., net of current portion. As of December 31, 2015, the entire receivable was classified as current assets and presented as "Other receivables" under the "Trade and other receivables" account in the consolidated statements of financial position.

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2015**	2014
Non-trade		**P15,115,167**	P10,189,569
Trade	*7, 18*	**12,903,186**	12,621,078
Output VAT		**4,057,706**	4,623,037
Accrued interest	*7, 17*	**493,897**	487,997
Withholding taxes		**242,993**	151,330
Subscription payable	*13*	**28,101**	28,101
	26, 27	**P32,841,050**	P28,101,112

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

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes. Power rate adjustments include the adjustments in November and December 2013 sale of power to WESM amounting to P563,587 and P1,352,610 as of December 31, 2015 and 2014, respectively. The noncurrent portion is presented as "Other noncurrent liabilities" account in the consolidated statements of financial position in 2014 (Note 28).

17. Long-term Debt

Long-term debt consists of:

	Note	**2015**	2014
Bonds payable		**P14,118,000**	P13,416,000
Less debt issue costs		**4,512**	61,955
		14,113,488	13,354,045
Loans payable		**45,175,700**	35,966,800
Less debt issue costs		**681,327**	607,600
		44,494,373	35,359,200
	26, 27	**58,607,861**	48,713,245
Less current maturities		**15,647,244**	1,330,037
		P42,960,617	P47,383,208

a. Bonds Payable

On January 28, 2011, the Parent Company carried out a US$300,000, 7%, 5-year note (Bonds Payable) issued under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the bonds contain a negative pledge provision with certain limitations on the ability of Parent Company and its material subsidiaries to create or have outstanding any security interest upon, or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011. Bonds payable amounted to P14,118,000 and P13,416,000 while accrued interest amounted to P411,775 and P391,300 as of December 31, 2015 and 2014, respectively. Interest expense amounted to P1,147,860, P1,123,679 and P1,094,846 in 2015, 2014 and 2013, respectively.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of "Asset Sale", "Material Subsidiary", "Non-Recourse Project Level Indebtedness", "Permitted Security Interest" and "Project Subsidiaries" and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

Bonds payable with maturity of January 28, 2016 was paid on January 26, 2016 using the US$300,000 short-term loan proceeds obtained in 2016 (Note 28).

b. Loans Payable

Parent Company

i) On March 31, 2011, the Parent Company signed a US$200,000, 3-year term loan with a syndicate of banks. The US$200,000 loan was drawn down by the Parent Company on September 30, 2011. Pursuant to the Facility Agreement, the amount of the loan drawn down will bear interest at the rate of the London interbank offered rate (LIBOR) plus a margin, payable in arrears on the last day of the agreed interest period.

   The Parent Company may, by giving not less than ten (10) business days' prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to Break Funding Cost where the prepayment is made on a day other than the last day of an interest period, without minimum penalty.

   On September 30, 2013, the Parent Company pre-terminated the US$200,000, 3-year loan maturing in September 2014.

ii) On September 9, 2013, the Parent Company signed a US$650,000, 5-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US$650,000 Facility Agreement was amended extending the loan facility from US$650,000 to US$700,000.

   The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries to create or have outstanding any security interest upon or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions.

   In March 2015, the remaining US$200,000 was drawn by the Parent Company from the US$700,000, 5-year term loan, which will mature in September 2018. The drawn amount from the Facility Agreement amounted to US$700,000 and US$500,000 as of December 31, 2015 and 2014, respectively.

SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year term loan with a syndicate of banks, for the acquisition of a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount payable to a related party amounting to P3,102,750 and P3,451,000 as of December 31, 2015 and 2014, respectively.

Effective interest rate ranges from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The Facility Agreement has a final maturity date of September 2023.

SPI may, by giving not less than 30 days prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to a repayment penalty of 1% of the principal amount being paid to be applied against the outstanding amounts due in the inverse order of maturity. The repayment schedule consists of 40 periods on a quarterly basis. The first repayment of principal started in December 2014.

The annual maturities on this loan are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2016	P1,573,200	P39,444	P1,533,756
2017	1,573,200	35,107	1,538,093
2018	1,573,200	30,581	1,542,619
2019	1,573,200	25,733	1,547,467
2020	1,573,200	20,606	1,552,594
2021 and thereafter	4,367,700	26,601	4,341,099
	P12,233,700	P178,072	P12,055,628

The Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

The loan is secured by the mortgage over the power plant and pledge of shares in SPI owned by the Parent Company (Note 12).

Loans payable amounted to P45,175,700 and P35,966,800 while accrued interest amounted to P7,544 and P17,794 as of December 31, 2015 and 2014, respectively. Total interest expense and financing charges on loans payable amounted to P1,756,754, P1,475,532 and P527,527 (inclusive of P111,147, P266,655 and P87,462 capitalized in construction in progress in 2015, 2014 and 2013, respectively; Note 12) in 2015, 2014 and 2013, respectively.

The amortization of debt issue costs of P262,428, P173,978 and P89,912 is included as part of “Interest expense and other financing charges” account in the consolidated statements of income in 2015, 2014 and 2013, respectively.

As of December 31, 2015 and 2014, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follow:

	2015	2014
Balance at beginning of year	**P669,555**	P727,115
Additions	**284,310**	128,535
Amortization	**(262,428)**	(173,978)
Capitalized amount	**(5,598)**	(12,117)
Balance at end of year	**P685,839**	P669,555

Contractual terms of the Group's interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 26.

18. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	*21*	**2015**	**P -**	**P1,177,187**	**P252**	**P106,573**	On demand or	Unsecured;
		2014	-	267,336	10,557	18,009	30 days;	no impairment
		2013	-	412,372	252	140,143	non-interest bearing	
Entities	*7, 9, 10 12, 21*	**2015**	**8,817,828**	**2,835,155**	**1,461,602**	**358,842**	On demand or	Unsecured;
Under		2014	7,814,823	2,208,319	852,839	418,116	30 days;	no impairment
Common Control		2013	1,831,882	17,993,545	522,697	524,268	non-interest bearing	
Associate		**2015**	**958,043**	**-**	**92,621**	**28,101**	30 days;	Unsecured;
		2014	878,650	-	77,816	28,101	non-interest	no impairment
		2013	167,550	-	81,546	-	bearing	
	15	**2015**	**-**	**-**	**256,472**	**-**	8 years;	Unsecured;
		2014	-	-	-	-	interest	no impairment
		2013					bearing	
Associates of	*7, 10*	**2015**	**735,355**	**118,896**	**78,952**	**6**	30 days;	Unsecured;
Entities		2014	-	-	-	-	non-interest	no impairment
Under Common		2013					bearing	
Control	*17*	**2015**	**-**	**-**	**-**	**3,102,750**	10 years;	Secured
		2014	-	-	-	3,451,000	interest	
		2013	-	-	-	3,119,565	bearing	
Others		**2015**	**7,419**	**321,143**	**1,677**	**160,378**	On demand or	Unsecured;
		2014	-	-	-	-	30 days;	no impairment
		2013	-	-	-	-	non-interest bearing	
		2015	**P10,518,645**	**P4,452,381**	**P1,891,576**	**P3,756,650**		
		2014	P8,693,473	P2,475,655	P941,212	P3,915,226		
		2013	P1,999,432	P18,405,917	P604,495	P3,783,976		

a. Amounts owed by related parties consist of trade and other receivables and security deposits (Note 7).

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

c. Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position.

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

e. The compensation of key management personnel of the Group amounted to P37,509, P32,604 and P30,702 for the years ended December 31, 2015, 2014 and 2013, respectively.

f. SMC offers shares of stock to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to weighted average daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock up to a maximum of 20,000 shares, subject to certain conditions, through payroll deductions (Note 3).

   The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date. The ESPP also allows subsequent withdrawal and cancellation of participant's subscriptions under certain terms and conditions.

   In 2015, 2014 and 2013, there are no expenses related to ESPP.

19. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit plan covering all of its eligible employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefit expense and liability is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2015. Valuations are obtained on a periodic basis.

The following table shows reconciliation from the opening balances to the closing balances of defined benefit obligation and its components.

	2015	2014
Balance at January 1	**P16,692**	P7,714
Included in Profit or Loss		
Current service cost	**5,866**	8,573
Interest cost	**745**	405
	6,611	8,978
Included in Other Comprehensive Income		
Actuarial losses arising from experience adjustments	**22,354**	-
Balance at December 31	**P45,657**	P16,692

Defined benefit obligation included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively.

The retirement benefit expense amounting to P6,611, P8,978 and P7,714 in 2015, 2014 and 2013, respectively, are recognized as part of "Salaries, wages and benefits" under "Operating expenses" account in the consolidated statements of income (Note 21).

The reserve for retirement plan as of December 31, 2015 comprises of actuarial loss recognized in other comprehensive income during the year amounting to P22,354.

The following were the principal actuarial assumptions at the reporting date:

	2015	2014
Discount rate	**4.43% - 4.89%**	4.12% - 4.49%
Future salary increase	**7.00%**	-

Assumptions regarding future mortality have been based on published statistics and mortality tables. Mortality rate is based from the 2001 CSO Table - Generational (Scale AA, Society of Actuaries).

The weighted average duration of the defined benefit obligation as of December 31, 2015 is 8.9 to 9.2 years.

Details of the expected future benefit payments are as follows:

Financial Year	Amount
2016	P -
2017	4,639
2018	3,889
2019	4,899
2020	3,542
2021 - 2025	17,156

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the rates shown below:

	100 bps Increase	100 bps Decrease
Discount rate	**(6.6% - 7.4%)**	**7.3% - 8.1%**
Salary increase rate	**6.5% - 7.1%**	**(6.0% - 6.7%)**
No attrition rates	**1.9% - 19.5%**	

Risks and Management of Risks

The defined benefit obligation expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The defined benefit obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit obligation. Also, benefit claims under the defined benefit obligation are paid directly by the Group when they become due.

20. Equity

Capital Stock

As of December 31, 2015 and 2014, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2015	2014
Subscribed capital stock	**P1,250,004**	P1,250,004
Less subscription receivable	**187,500**	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,003,500 common shares as of December 31, 2015 and 2014.

Reserves

	2015	2014	2013
Excess of net assets over purchase price of acquired subsidiaries under common control	**P785,279**	P785,279	P785,279
Share in other comprehensive loss of an associate - net			
Balance at beginning of year	**-**	-	(39,306)
Additions	**-**	-	20,535
Disposal	**-**	-	18,771
Balance at end of year	**-**	-	-
	P785,279	P785,279	P785,279

Excess of net assets over purchase price of acquired subsidiaries under common control pertains to the acquisitions of noncontrolling interest in SMEC and SPDC.

The share in other comprehensive loss of an associate consists of unrealized fair value gain on AFS financial assets and cumulative translation adjustments.

Retained Earnings

The Group's unappropriated retained earnings include the accumulated earnings in subsidiaries and equity in net earnings (losses) of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2015

Date of Declaration	**Stockholders of Record**	**Date Payable**	**Dividend Per Share**	**Amount**
March 25, 2015	**March 25, 2015**	**March 31, 2015**	**P1.20**	**P1,500,000**
July 2, 2015	**July 2, 2015**	**July 9, 2015**	**1.20**	**1,500,000**
November 5, 2015	**November 5, 2015**	**November 10, 2015**	**1.20**	**1,500,000**
				P4,500,000

December 31, 2014

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2014	March 25, 2014	April 8, 2014	P1.20	P1,500,000
June 3, 2014	June 3, 2014	June 10, 2014	2.80	3,500,000
August 19, 2014	August 19, 2014	August 29, 2014	2.00	2,500,000
November 4, 2014	November 4, 2014	November 11, 2014	2.00	2,500,000
				P10,000,000

December 31, 2013

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
February 19, 2013	February 19, 2013	February 28, 2013	P0.80	P1,000,000
May 3, 2013	May 3, 2013	May 15, 2013	0.80	1,000,000
August 13, 2013	August 13, 2013	August 15, 2013	0.80	1,000,000
November 29, 2013	November 29, 2013	December 5, 2013	1.20	1,500,000
				P4,500,000

The Group's appropriated retained earnings, net of reversal, are as follows:

	2015	2014	2013
Parent Company	**P7,700,000**	P11,771,000	P2,643,000
SMEC	**5,340,000**	7,675,000	1,800,000
SPPC	**9,158,600**	7,352,300	2,981,800
SPDC	**2,957,000**	2,604,600	-
	P25,155,600	P29,402,900	P7,424,800

The analysis of appropriated retained earnings as of December 31, 2015 is as follows:

	Parent Company	**SMEC**	**SPPC**	**SPDC**	**Total**
January 1, 2013	P2,643,000	P1,800,000	P2,981,800	P -	P7,424,800
Used/utilized	-	-	-	-	-
Additions	-	-	-	-	-
December 31, 2013	2,643,000	1,800,000	2,981,800	-	7,424,800
Used/utilized	-	(500,000)	-	-	(500,000)
Additions	9,128,000	6,375,000	4,370,500	2,604,600	22,478,100
December 31, 2014	11,771,000	7,675,000	7,352,300	2,604,600	29,402,900
Used/utilized	(11,771,000)	(7,325,000)	-	-	(19,096,000)
Additions	7,700,000	4,990,000	1,806,300	352,400	14,848,700
December 31, 2015	P7,700,000	P5,340,000	P9,158,600	P2,957,000	P25,155,600

On December 27, 2012, the Parent Company appropriated: a) P2,092,750 for the construction of a power plant; and b) P446,250 for the payment of interest on the bonds payable; and c) P104,000 for the payment of interest on the loans payable (Note 17), SPPC appropriated P232,800 for the payment of fees due to PSALM under its IPPA Agreement for the Ilijan Power Plant, and SMEC appropriated: a) P1,238,000 for mining project development costs, b) P500,000 for the upgrading of the Sual power plant's coal unloading facility, and c) P62,000 for the purchase of computer software. These projects were approved by the BOD on the same date, and are expected to commence in 2013. As of December 31, 2013, the projects to which these appropriations relate are still on-going and are expected to be completed in 2-3 years.

On December 22, 2014, the BOD approved the appropriation of retained earnings for fixed monthly payments to PSALM of SMEC, SPPC and SPDC pursuant to the IPPA Agreements and additional funding requirements on its expansion project.

On December 23, 2015, the BOD approved the appropriation of retained earnings amounting to P4,990,000, P1,806,300 and P352,400 for fixed monthly payments to PSALM of SMEC, SPPC and SPDC, respectively, pursuant to the IPPA Agreements. On the same day, the BOD approved the appropriation of retained earnings of the Parent Company amounting to P7,700,000 for the payment of the US$700,000, 5-year term loan to mature in September 2018 (Note 17).

The appropriations reversed in 2015 and 2014 were used for the Group's required capital expenditures and servicing of long-term debt as intended.

Undated Subordinated Capital Securities (USCS)

The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

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

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

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

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

Details of distributions paid to USCS holders are as follows:

Year	Date of Last Payment	Amount Paid
2015	May 6	P714,616
	November 6	736,072
		P1,450,688
2014	November 6	P723,214

On February 24, 2016, the Parent Company paid distributions to USCS holders amounting to P689,223.

21. Plant Operations and Maintenance Fees and Operating Expenses

Plant operations and maintenance consist of:

	Note	**2015**	2014	2013
Plant operations and maintenance fees	*7, 18*	**P467,444**	P499,850	P194,388
Supplies and metering		**21,314**	22,510	-
Salaries, wages and employee benefits		**13,330**	41,720	-
Others		**123**	11,552	-
		P502,211	P575,632	P194,388

Operating expenses consist of:

	Note	**2015**	2014	2013
Management fees	*18*	**P1,196,789**	P456,727	P409,373
Taxes and licenses		**946,801**	406,979	110,791
Outside services		**723,269**	143,492	35,448
Rent	*4, 7, 18*	**360,091**	115,849	24,167
Corporate special program		**243,045**	127,116	106,772
Market fees	*7*	**219,681**	233,701	246,591
Salaries, wages and benefits	*18, 19*	**190,523**	149,106	121,784
Impairment losses on trade receivables	*9*	**142,658**	144,393	32,850
Repairs and maintenance		**138,067**	65,952	756
Professional fees		**124,221**	130,019	38,788
Supplies		**105,617**	46,451	28,965
Travel and transportation		**83,531**	45,467	29,643
Depreciation and amortization	*12*	**73,415**	43,774	21,749
Donations	*12*	**59,781**	662,752	240,060
Miscellaneous		**296,646**	140,152	100,013
		P4,904,135	P2,911,930	P1,547,750

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

22. Other Income (Charges)

Other income (charges) - net consists of:

	Note	**2015**	2014	2013
Foreign exchange losses - net	*26*	**(P7,582,548)**	(P813,621)	(P9,434,860)
PSALM monthly fees reduction	*7*	**1,858,506**	814,565	872,243
Miscellaneous income (charges)	*4, 7, 9*	**(202,008)**	67,281	71,555
		(P5,926,050)	P68,225	(P8,491,062)

Miscellaneous income (charges) pertain to impairment losses on other receivables, service fees from TPEC and sale of fly ash to a related party (Notes 9 and 18).

23. Income Taxes

The components of income tax expense are as follows:

	Note	**2015**	2014	2013
Current	*24*	**P2,181,771**	P1,608,293	P686,311
Deferred		**521,637**	1,085,130	(1,522,613)
		P2,703,408	P2,693,423	(P836,302)

Current income tax expense in 2015, 2014 and 2013 represents regular corporate income tax of 30% on taxable income, MCIT on gross income and final tax paid on interest income.

Deferred tax assets (liabilities) arise from the following:

	Note	**2015**	2014
Items recognized in profit or loss			
Allowance for impairment losses on trade and other receivables	*9*	**P170,443**	P60,005
Defined benefit obligation	*19*	**6,991**	-
Difference of depreciation and other related expenses over monthly payments	*7*	**(849,032)**	(324,095)
Accrued expenses and others		**(114,129)**	-
Items recognized directly in other comprehensive income			
Fair value adjustment	*13*	**(357,966)**	-
Equity reserve for retirement plan		**6,706**	-
		(P1,136,987)	(P264,090)

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

The amounts above are reported in the consolidated statements of financial position as follows:

	2015	2014
Deferred tax assets	**P2,745,943**	P2,779,380
Deferred tax liabilities	**(3,882,930)**	(3,043,470)
	(P1,136,987)	(P264,090)

As of December 31, 2015, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
Year 2015	December 31, 2018	P3,014,845	P38,415
Year 2014	December 31, 2017	2,073,953	14,230
Year 2013	December 31, 2016	2,187,455	12,766
		P7,276,253	P65,411

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2015	2014	2013
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:			
Unrecognized deferred tax assets	**30.43%**	-	-
Availment of optional standard deduction and others	**(0.78%)**	(1.91%)	20.22%
Income subject to ITH	**-**	(7.87%)	(76.30%)
Effective income tax rate	**59.65%**	20.22%	(26.08%)

24. Registrations and License

Registrations with the Board of Investments (BOI)

On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four (4) years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCPC and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCPC and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for 1 year from the date of issuance. For the subsequent years, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and June 9 and August 26, 2015 to SMCPC and February 6, 2015 and February 11, 2016 to SCPC, with a validity of 1 year from the date of issuance.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration Nos. 2013-047 and 2010-181 bearing pioneer status with non-pioneer incentives from Petron to SPI. Under the Certificates of Registration, SPI is entitled to certain incentives including ITH incentives, as applicable, for the revenue generated from the sale of electricity.

License Granted by the ERC

On August 22, 2011, SMELC was granted a Retail Electricity Supplier's (RES) License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

25. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2015	2014	2013
Net income attributable to equity holders of the Parent Company	**P1,828,918**	P10,629,482	P4,042,655
Distributions to USCS holders for the year	**(1,918,382)**	(962,786)	-
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(89,464)**	9,666,696	4,042,655
Weighted average number of common shares outstanding (in thousands) (b)	**1,250,004**	1,250,004	1,250,004
Basic/diluted EPS (a/b)	**(P0.07)**	P7.73	P3.23

As of December 31, 2015, 2014 and 2013, the Group has no dilutive debt or equity instruments.

26. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the BOD on its activities.

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

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

Interest Rate Risk

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

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,092 and P6,388 in 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's equity.

Interest Rate Risk Table

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

December 31, 2015	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P1,402,200**	**P3,892,950**	**P10,903,950**
Step-down interest rate	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**6.0606%**	**-**
Philippine peso-denominated	**171,000**	**171,000**	**171,000**	**171,000**	**171,000**	**474,750**	**1,329,750**
Step-down interest rate	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**6.2921%**	**-**
Foreign currency-denominated (expressed in Philippine peso)	**14,118,000**	**-**	**-**	**-**	**-**	**-**	**14,118,000**
Interest rate	**7%**						
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**32,942,000**	**-**	**-**	**-**	**32,942,000**
Interest rate			**LIBOR + Margin**				
	P15,691,200	**P1,573,200**	**P34,515,200**	**P1,573,200**	**P1,573,200**	**P4,367,700**	**P59,293,700**

December 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,223,850	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P5,295,150	P12,127,800
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	-
Philippine peso-denominated	149,250	171,000	171,000	171,000	171,000	645,750	1,479,000
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	-
Foreign currency-denominated (expressed in Philippine peso)	-	13,416,000	-	-	-	-	13,416,000
Interest rate		7%					
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	22,360,000	-	-	22,360,000
Interest rate				LIBOR + Margin			
	P1,373,100	P14,989,200	P1,573,200	P23,933,200	P1,573,200	P5,940,900	P49,382,800

Foreign Currency Risk

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

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

		2015		2014	
	Note	**US Dollar**	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	*8*	**US$210,578**	**P9,909,822**	US$260,178	P11,635,160
Trade and other receivables	*9*	**81,746**	**3,846,983**	83,937	3,753,513
		292,324	**13,756,805**	344,115	15,388,673
Liabilities					
Accounts payable and accrued expenses	*16*	**278,830**	**13,121,735**	148,277	6,633,727
Finance lease liabilities	*7*	**2,057,616**	**96,831,429**	2,216,978	99,143,266
Long-term debt	*7, 17*	**1,000,000**	**47,060,000**	800,000	35,776,000
		3,336,446	**157,013,164**	3,165,255	141,552,993
Net foreign currency-denominated monetary liabilities		**US$3,044,122**	**P143,256,359**	US$2,821,140	P126,164,320

The Group reported net unrealized foreign exchange losses amounting to P7,505,369, P1,584,500 and P9,592,617 in 2015, 2014 and 2013, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2015	**P47.060**
December 31, 2014	44.720
December 31, 2013	44.395

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and monetary liabilities) for the years ended December 31:

	2015		2014	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P210,578)**	**P210,578**	(P260,178)	P260,178
Trade and other receivables	**(81,746)**	**81,746**	(83,937)	83,937
	(292,324)	**292,324**	(344,115)	344,115
Accounts payable and accrued expenses	**278,830**	**(278,830)**	148,277	(148,277)
Finance lease liabilities	**2,057,616**	**(2,057,616)**	2,216,978	(2,216,978)
Long-term debt	**1,000,000**	**(1,000,000)**	800,000	(800,000)
	3,336,446	**(3,336,446)**	3,165,255	(3,165,255)
	P3,044,122	**(P3,044,122)**	P2,821,140	(P2,821,140)

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

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management as of December 31:

2015	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P22,241,361**	**P22,241,361**	**P22,241,361**	**P -**	**P -**	**P -**
Trade and other receivables - net*	**18,473,455**	**18,473,455**	**18,473,455**	**-**	**-**	**-**
Restricted cash (included under "Other noncurrent assets" account - net)	**1,311,740**	**1,311,740**	**1,311,740**	**-**	**-**	**-**
Noncurrent receivable (included under "Other noncurrent assets - net" account)	**253,812**	**253,812**	**-**	**26,418**	**87,735**	**139,659**
Financial Liabilities						
Accounts payable and accrued expenses*	**27,707,659**	**27,707,659**	**27,707,659**	**-**	**-**	**-**
Finance lease liabilities (including current portion)	**179,193,193**	**231,795,506**	**23,755,535**	**24,016,154**	**77,763,868**	**106,259,949**
Long-term debt - net (including current maturities)	**58,607,861**	**59,293,700**	**15,691,200**	**1,573,200**	**37,661,600**	**4,367,700**

**Excluding statutory receivables and payables*

2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P38,304,294	P38,304,294	P38,304,294	P -	P -	P -
Trade and other receivables - net*	18,208,290	18,208,290	18,208,290	-	-	-
Restricted cash (included under "Other noncurrent assets - net" account)	1,054,801	1,054,801	1,054,801	-	-	-
Noncurrent receivable (included under "Other noncurrent assets - net" account)	179,129	179,129	-	179,129	-	-
Financial Liabilities						
Accounts payable and accrued expenses*	22,520,871	22,520,871	22,520,871	-	-	-
Finance lease liabilities (including current portion)	186,303,745	248,175,447	22,091,404	23,170,046	71,935,991	130,978,006
Long-term debt - net (including current maturities)	48,713,245	49,382,800	1,373,100	14,989,200	27,079,600	5,940,900

**Excluding statutory receivables and payables*

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

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

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

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

Financial information on the Group's maximum exposure to credit risk as of December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	2015	2014
Cash and cash equivalents (excluding cash on hand)	**P22,240,755**	P38,303,999
Trade and other receivables - net*	**18,473,455**	18,208,290
Restricted cash	**1,311,740**	1,054,801
Noncurrent receivable	**253,812**	179,129
	P42,279,762	P57,746,219

**Excluding statutory receivables*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has no significant concentration of credit risk since the Group deals with a large number of homogeneous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

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

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debt and USCS (Notes 17 and 20).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

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

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

27. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments as of December 31:

	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P22,241,361**	**P22,241,361**	P38,304,294	P38,304,294
Trade and other receivables - net*	**18,473,455**	**18,473,455**	18,208,290	18,208,290
Restricted cash (included under "Other noncurrent assets - net" account)	**1,311,740**	**1,311,740**	1,054,801	1,054,801
Noncurrent receivable (included under "Other noncurrent assets - net" account)	**253,812**	**253,812**	179,129	179,129
	P42,280,368	**P42,280,368**	P57,746,514	P57,746,514
Financial Liabilities				
Accounts payable and accrued expenses*	**P27,707,659**	**P27,707,659**	P22,520,871	P22,520,871
Finance lease liabilities (including current portion)	**179,193,193**	**179,193,193**	186,303,745	186,303,745
Long-term debt - net (including current maturities)	**58,607,861**	**59,760,982**	48,713,245	51,311,719
	P265,508,713	**P266,661,834**	P257,537,861	P260,136,335

**Excluding statutory receivables and payables*

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

Cash and Cash Equivalents, Trade and Other Receivables (excluding statutory receivables), Restricted Cash, Noncurrent Receivable, Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amounts of these financial assets and financial liabilities approximate fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of noncurrent receivable is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. The discount rates used for Philippine peso-denominated loans range from 2.39% to 4.57% and from 2.54% to 4.29% as of December 31, 2015 and 2014, respectively. The discount rates used for foreign currency-denominated loans is 0.43% and range from 0.17% to 0.63% as of December 31, 2015 and 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of the long-term debt was categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable at the reporting date. The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2015 and 2014. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Finance Lease Liabilities. The fair value is based on the present value of expected cash flows using the applicable discount rates based on current market rates of similar instruments.

28. Other Matters

a. Contingencies
The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined (Note 4).

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

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

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

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

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

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM’s Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM’s Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset on April 14, 2016.

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

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

c. Criminal Cases Filed by SPPC and SMEC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC’s IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US$60,000. The case is still pending with the DOJ as of December 31, 2015.

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of TPEC and TSC, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC. The case is still pending with the DOJ as of December 31, 2015.

d. Temporary Restraining Order Issued to Meralco

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, the ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco’s plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement (SPA) agreed with PEMC which took effect in June 2014 up to May 2016. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

e. Commitments

The outstanding purchase commitments of the Group amounted to P2,577,051 and P4,581,000 as of December 31, 2015 and 2014, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2015 and 2014 is approximately P32,704,535 and P39,379,030, respectively.

f. Electric Power Industry Reform Act of 2001

The EPIRA sets forth the following: (a) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (b) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (c) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements discussed in Note 7.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2015.

g. US$400,000 Facility Agreement

On December 29, 2015, SCPC signed a US$400,000, 7-year term loan with a syndicate of banks. Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. On March 8, 2016, an initial drawdown amount of US$250,000 was made from the Facility Agreement. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

The Facility Agreement imposes a number of covenants on the part of SCPC including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of the assets or revenues of SCPC to secure any indebtedness, subject to certain exceptions.

h. Subsequent Events

On January 14, 2016, the Parent Company has entered into a US$300,000, 6-month term loan with a local bank. The full amount of loan was drawn on January 25, 2016. Proceeds from loan were used to pay the US$300,000, 7%, 5-year note on January 26, 2016.

29. Reclassification of Account

The Parent Company and SMEC reclassified the accrual for defined benefit obligation in the 2014 and 2013 consolidated financial statements to conform to the 2015 presentation. The effect of the reclassification follows:

	December 31, 2014			December 31, 2013		
Account Description	As Previously Reported	Reclassification Add (Deduct)	As Restated	As Previously Reported	Reclassification Add (Deduct)	As Restated
Consolidated Statements of Financial Position						
Current Liabilities						
Accounts payable and accrued expenses	P28,117,804	(P16,692)	P28,101,112	P22,971,933	(P7,714)	P22,964,219
Noncurrent Liabilities						
Other noncurrent liabilities	670,486	16,692	687,178	-	7,714	7,714
Consolidated Statements of Cash Flows						
Cash Flows from Operating Activities						
Retirement benefit expense	-	8,978	8,978	-	7,714	7,714
Increase in accounts payable and accrued expenses	5,145,871	(8,978)	5,136,893	3,128,087	(7,714)	3,120,373

The Group believes that the presentation of a third statement of financial position as of January 1, 2014 is not relevant as the adjustment has no significant effect on the consolidated statement of financial position as of January 1, 2014.

KPMG

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of SMC Global Power Holdings Corp. and Subsidiaries (the Group) as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013, and have issued our report dated March 17, 2016.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management.

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

John Molina

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until March 25, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2014
Issued January 22, 2014; valid until January 21, 2017
PTR No. 5321506MD
Issued January 4, 2016 at Makati City

March 17, 2016
Makati City, Metro Manila

PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

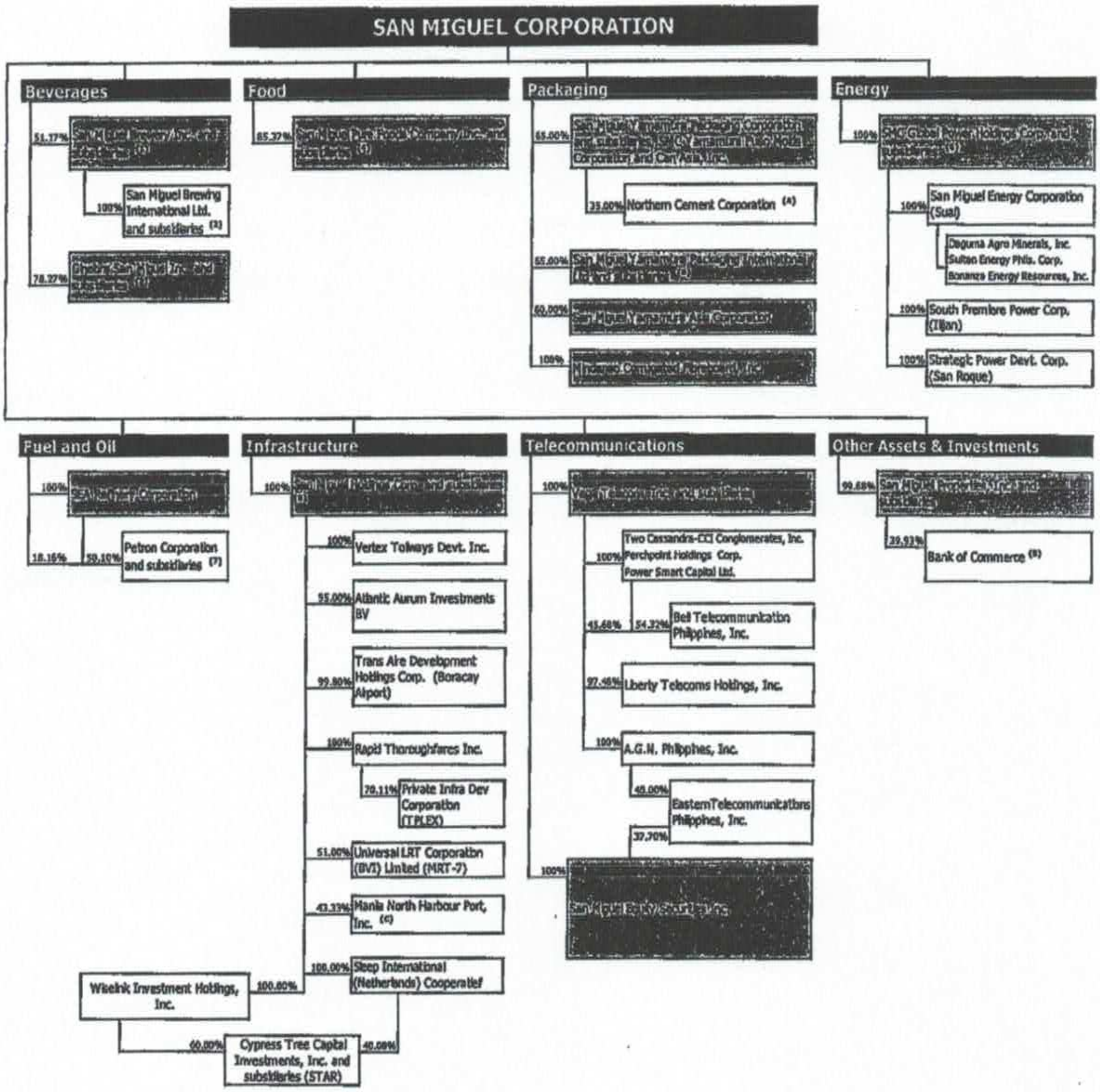
SMC GLOBAL POWER HOLDINGS CORP.
155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
(Amounts in Thousand Pesos)

		(Figures based on functional currency audited separate financial statements as of and for the year ended December 31, 2015)
Unappropriated Retained Earnings, beginning		P427
Adjustments in previous year's reconciliation		-
Unappropriated Retained Earnings, as adjusted, beginning		427
Net income based on the face of Audited Financial Statements	P3,072,274	
Non-actual gain		
Deferred tax benefit on defined benefit obligation	(6,534)	
Sub-total	3,065,740	3,065,740
Net income Actual/Realized		3,066,167
Reversal of appropriation		11,771,000
Appropriations of retained earnings during the year		(7,700,000)
Dividend declarations during the year		(4,500,000)
Distributions paid during the year		(1,450,688)
		P1,186,479

Corporate Organization

Set forth below is the corporate organizational chart of SMC as of December 31, 2015.

SMC and its Major Subsidiaries and Associates



Note:
(A) Associate
(B) Asset held for sale
(C) Additional 35% owned by Petron

Subsidiaries:

(1) San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary

(2) San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT Delta Djakarta Tbk and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited

(3) Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited, Global Beverage Holdings Ltd. and Siam Holdings Ltd.

(4) San Miguel Pure Foods Company Inc. subsidiaries include: San Miguel Foods, Inc., San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia, San Miguel Pure Foods International Limited and subsidiary and San Miguel Hormel (Vn) Co., Ltd.

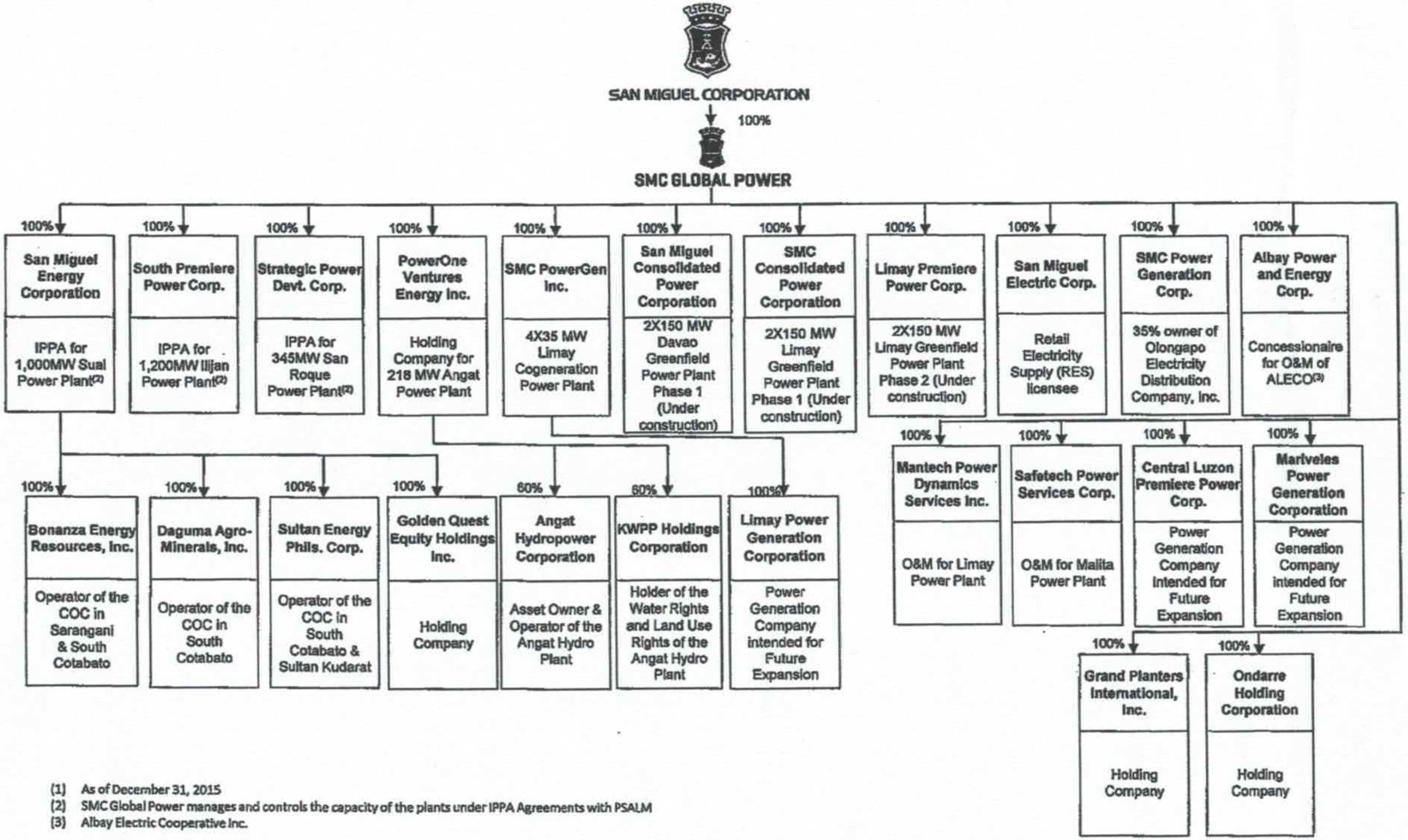
(5) San Miguel Yamamura Packaging International Limited subsidiaries include: San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Co., Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty. LTd. and subsidiaries and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary

(6) SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc., PowerOne Ventures Energy Inc., Albay Power and Energy Corp., SMC Consolidated Power Corporation, San Miguel Consolidated Power Corporation and Ondarre Holdings Corporation.

(7) Petron Corporation subsidiaries include: Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation, Petron Singapore Trading Pte., Ltd., New Ventures Realty Corporation and subsidiaries, Petron Global Limited, Petron Oil & Gas International Sdn. Bhd., including Petron Fuel International Sdb. Bhd., Petron Oil (M) Sdn. Bhd. And Petron Malaysia Refining & Marketing Berhad (collectively Petron Malaysia), Petron Finance (Labuan) Limited, Limay Energen Corporation and Petrochemical Asia (HK) Limited and subsidiaries

(8) San Miguel Holdings Corp. subsidiaries also include: Optimal Infrastructure Development, Inc., Terramino Holdings, Inc. and subsidiary and Alloy Manila Toll Expressways Inc.

(9) Vega Telecom, Inc. subsidiaries also include High Frequency Telecommunication Inc., Multi-technology Investment Holdings, Inc., Cobaltpoint Telecom, Inc. (formerly Express Telecommunications Company Inc.), Trans Digital Excel Inc., and San Miguel Equity Securities Inc.



(1) As of December 31, 2015
(2) SMC Global Power manages and controls the capacity of the plants under IPPA Agreements with PSALM
(3) Albay Electric Cooperative Inc.

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
(A Wholly-owned Subsidiary of San Miguel Corporation)
155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila

SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments		✓	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39		✓	
PFRS 9 (2014)	Financial Instruments		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative		✓	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		✓	
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		✓	
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization		✓	
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine		✓	
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures	✓		
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
SIC-32	Intangible Assets - Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-01-Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position	✓		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✓		
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓

SMC GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES

INDEX TO SUPPLEMENTARY SCHEDULES (ANNEX 68-E)
DECEMBER 31, 2015

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS - OTHER ASSETS	
E	- LONG-TERM DEBT	
F	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2015
(Amounts in Thousands)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2015	Income Received and Accrued
Cash and cash equivalents	-	₱ 22,241,361	Not applicable	₱ 261,338
Trade and other receivables - net	-	18,473,455 *	Not applicable	150,446
Restricted cash	-	1,311,740	Not applicable	-
Noncurrent receivables	-	253,812	Not applicable	2,660
		₱ 42,280,368	₱ -	₱ 414,444

* *Excluding statutory receivables*

See Notes 26 and 27 of the Consolidated Financial Statements.

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Amounts in Thousands)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
SMC PowerGen Inc.	₱ -	₱ 181,273	₱ (69,011)	₱ -	₱ 112,262	₱ 112,262	₱ -	₱ 112,262
Albay Power and Energy Corp.	1,573,773	1,640,062	(1,232,206)	-	1,981,629	336,685	1,644,944	1,981,629
SMC Consolidated Power Corporation	2,504,146	13,567,133	(2,873,614)	-	13,197,665	13,197,665	-	13,197,665
San Miguel Consolidated Power Corporation	2,353,240	11,750,072	(800,500)	-	13,302,812	13,302,812	-	13,302,812
South Premiere Power Corp.	98,188	3,684,747	(853,320)	-	2,929,615	2,929,615	-	2,929,615
San Miguel Electric Corp.	81,903	990,319	(990,000)	-	82,222	82,222	-	82,222
PowerOne Ventures Energy Inc.	2,000	-	(2,000)	-	-	-	-	-
Strategic Power Devt. Corp.	-	60,761	(60,761)	-	-	-	-	-
Limay Premiere Power Corp.	-	11,040	-	-	11,040	11,040	-	11,040
Grand Planters International, Inc.	-	12,204	(11,077)	-	1,127	1,000	127	1,127
San Miguel Energy Corporation	394,319	3,437,668	(3,326,421)	-	505,566	505,566	-	505,566
Bonanza Energy Resources, Inc.	1,777	-	-	-	1,777	1,777	-	1,777
Sultan Energy Phils. Corp.	1,462	1	-	-	1,463	1,463	-	1,463
	₱ 7,010,808	₱ 35,335,280	₱ (10,218,910)	₱ -	₱ 32,127,178	₱ 30,482,107	₱ 1,645,071	₱ 32,127,178

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Amounts in Thousands)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
South Premiere Power Corp.	₱ 291,446	₱ 658,907	₱ (850,888)	₱ -	₱ 99,465	₱ 99,465	₱ -	₱ 99,465
Strategic Power Devt. Corp.	891,792	3,414,668	(2,657,538)	-	1,648,922	564,680	1,084,242	1,648,922
SMC Global Power Holdings Corp.	5,017,506	29,475,626	(4,907,585)	-	29,585,547	29,585,547	-	29,585,547
Grand Planters International, Inc.	-	70,779	-	-	70,779	70,779	-	70,779
San Miguel Energy Corporation	806,825	1,715,299	(1,802,899)	-	719,225	158,396	560,829	719,225
Daguma Agro-Minerals, Inc.	3,239	-	-	-	3,239	3,239	-	3,239
Bonanza Energy Resources, Inc.	-	1	-	-	1	1	-	1
	₱ 7,010,808	₱ 35,335,280	₱ (10,218,910)	₱ -	₱ 32,127,178	₱ 30,482,107	₱ 1,645,071	₱ 32,127,178

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2015
(Amounts in Thousands)

Intangible Assets and Goodwill

Description	Beginning Balance	Additions at Cost	Disposal / Reclassed to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustment	Ending Balance
Intangible Assets (with finite useful lives)						
Mining rights	P 1,719,726	P -	P -	P -	P -	P 1,719,726
Power concession assets						
Cost	496,312	47,091	-	-	-	543,403
Less amortization for the year	14,610	-	-	21,296	-	35,906
	481,702	47,091	-	(21,296)	-	507,497
Computer software						
Cost	113,733	70,644	-	-	-	184,377
Less amortization for the year	1,786	-	-	5,431	-	7,217
	111,947	70,644	-	(5,431)	-	177,160
	P 2,313,375	P 117,735	P -	P (26,727)	P -	P 2,404,383
Goodwill	P 8,866	P -	P -	P -	P -	P 8,866
Total Intangible Assets and Goodwill	2,322,241	117,735	-	(26,727)	-	2,413,249

See Notes 4, 6, 7 and 14 of the Consolidated Financial Statements.

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2015
(Amounts in Thousands)

TITLE OF ISSUE	AGENT / LENDER	Amount Shown as Current	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company (SMC Global Power Holdings Corp.)								
Foreign currency - denominated:								
Fixed	DB Trustees (Hongkong) Limited as Trustee	14,113,488	-	14,113,488	7.00%	Bullet	Semi-annual	January-16
Floating	Standard Chartered Bank (Hongkong) Limited as Facility Agent	-	32,438,745	32,438,745	LIBOR + margin	Bullet	Monthly	September-18
		14,113,488	32,438,745	46,552,233				
Subsidiaries								
Peso denominated:								
SPI								
Fixed	Philippine National Bank as Trustee	1,533,756	10,521,872	12,055,628	6.2921% and 6.0606%	Amortized	Quaterly	September-23
		1,533,756	10,521,872	12,055,628				
Total Long-term Debt		P 15,647,244	P 42,960,617	P 58,607,861				

See Notes 17, 26 and 27 of the Consolidated Financial Statements.

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2015
(Amounts in Thousands)

Not applicable

NAME OF RELATED PARTY		Beginning Balance		Ending Balance
Bank of Commerce				
Loans payable	P	3,451,000	P	3,102,750
	P	3,451,000	P	3,102,750

See Notes 17 and 18 of the Consolidated Financial Statements.

SAN MIGUEL GLOBAL POWER HOLDINGS CORP. AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
December 31, 2015

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES HELD BY: AFFILIATES	NUMBER OF SHARES HELD BY: DIRECTORS, OFFICERS AND EMPLOYEES
ISSUED SHARES					
COMMON STOCK	2,000,000,000	1,250,003,500	1,250,003,500	-	-
	2,000,000,000	1,250,003,500	1,250,003,500	-	-

See Note 20 of the Consolidated Financial Statements.

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

LIQUIDITY RATIO

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

	Conventional		*Adjusted*[1]	
(in thousand ₱)	2015	2014	2015	2014
(A) Current Assets	**57,046,951**	**67,014,868**	**57,046,951**	**67,014,868**
(B) Current Liabilities	**65,134,332**	**45,787,733**	**48,587,569**	**29,582,509**
Current Ratio (A) / (B)	**0.88**	**1.46**	**1.17**	**2.27**

(1) Current portion of finance lease liabilities in relation to IPPA Agreements with Power Sector Assets and Liabilities Management Corporation (PSALM) are excluded in total current liabilities as this current obligation on finance lease are pass-through charges billable to customers. For 2015 and 2014, current portion of finance lease liabilities amounted to ₱16,546,763 ('000) and ₱16,205,224 ('000), respectively. But the adjusted computation was still not reflective of actual liquidity of the Group since cash are used extensively for the power plant expansion projects. For 2015 alone, additions to property, plant and equipment amounted to ₱33,832,821 ('000). Also, the 2015 current liabilities includes the US$300 million bonds that will mature in January 2016. The Group plans to issue peso retail bonds in order for the obligation to be refinanced by a long-term debt.

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

	Conventional		*Adjusted*[1]	
(in thousand ₱)	2015	2014	2015	2014
(A) Quick Assets	**40,714,986**	**56,512,633**	**40,714,986**	**56,512,633**
(B) Current Liabilities	**65,134,332**	**45,787,733**	**48,587,569**	**29,582,509**
Acid Test Ratio (A) / (B)	**0.63**	**1.23**	**0.84**	**1.91**

(1) Current portion of finance lease liabilities in relation to IPPA Agreements with PSALM are excluded in total current liabilities as this current obligation on finance lease are pass-through charges billable to customers. For 2015 and 2014, current portion of finance lease liabilities amounted to ₱16,546,763 ('000) and ₱16,205,224 ('000), respectively. But the adjusted computation was still not reflective of actual liquidity of the Group since cash are used extensively for the power plant expansion projects. For 2015 alone, additions to property, plant and equipment amounted to ₱33,832,821 ('000). Also, the 2015 current liabilities includes the US$300 million bonds that will mature in January 2016. The Group plans to issue peso retail bonds in order for the obligation to be refinanced by a long-term debt.

SOLVENCY RATIO

Debt-to-Equity Ratio = Total Liabilities / Total Equity

(in thousand ₱)	Conventional 2015	Conventional 2014	Adjusted[2] 2015	Adjusted[2] 2014
(A) Total Liabilities	274,774,592	267,000,110	95,581,399	80,696,365
(B) Total Equity	56,435,258	46,749,177	56,435,258	46,749,177
Debt-to-Equity Ratio (A) / (B)	4.87	5.71	1.69	1.73

(2) Current and noncurrent portions of finance lease liabilities in relation to IPPA Agreement with PSALM are excluded in total liabilities as this obligation on finance lease are pass-through charges billable to customers. For 2015 and 2014, finance lease liabilities amounted to ₱179,193,193 ('000) and ₱186,303,745 ('000), respectively.

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

(in thousand ₱)	Conventional 2015	Conventional 2014	Adjusted[3] 2015	Adjusted[3] 2014
(A) Total Assets	331,209,850	313,749,287	148,263,553	125,616,587
(B) Total Equity	56,435,258	46,749,177	56,435,258	46,749,177
Asset-to-Equity Ratio (A) / (B)	5.87	6.71	2.63	2.69

(3) Net carrying amount value of the IPPA power plants in relation to IPPA Agreements with PSALM were omitted in total assets as this power plant assets were only capitalized with corresponding finance lease liabilities. For 2015 and 2014, net carrying amount of IPPA power plant assets amounted to ₱182,946,297 ('000) and ₱188,132,700 ('000), respectively.

Interest Coverage Ratio = EBITDA / Finance Cost

(in thousand ₱)	Conventional 2015	Conventional 2014	Adjusted[4] 2015	Adjusted[4] 2014
(A) EBITDA	31,370,494	32,942,659	9,090,376	12,818,672
(B) Finance Cost	13,130,252	13,168,470	2,917,499	2,457,399
Interest Coverage Ratio (A) / (B)	2.39	2.50	3.12	5.22

(4) PSALM payments were deducted from the consolidated EBITDA to reflect the actual cost of administering the IPPA power plants. While interest paid in relation to obligation owed to PSALM (IPPA finance lease) were excluded from total finance cost, as it were already covered in the PSALM payments.

- PSALM payment for 2015 and 2014 was ₱22,280,118 ('000) and ₱20,123,987 ('000), respectively.
- Interest expense on IPPA finance lease for 2015 and 2014 was ₱10,212,753 ('000) and ₱10,711,071 ('000), respectively.

PROFITABILTY RATIO

$$\text{Operating Income Margin} = \frac{\text{Operating Income}}{\text{Net Sales}}$$

Conventional

(in thousand ₱)	2015	2014
(A) Operating Income[1]	**23,702,629**	**25,895,518**
(B) Net Sales	**77,506,691**	**84,293,590**
Operating Income Margin (A) / (B)	**30.6%**	**30.7%**

1) Calculated as net sales less cost and expenses.

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

(in thousand ₱)	2015	2014
(A) Net Income	**1,828,918**	**10,629,482**
(B) Equity	**56,435,258**	**46,749,177**
Return on Equity (A) / (B)	**3.2%**	**22.7%**

OTHER RELEVANT RATIO

The only ratio that the company uses as key performance indicator is the Leverage Ratio computed as Consolidated Net Debt over Consolidated EBITDA.

$$\textbf{Leverage Ratio} = \frac{\textbf{Consolidated Net Debt}}{\textbf{Consolidated EBITDA}}$$

	Per Financial Covenant	
(in thousand ₱)	2015	2014
(A) Consolidated Net Debt[1]	**24,490,644**	**(2,419,699)**
(B) Consolidated EBITDA[2]	**5,458,375**	**10,150,161**
Leverage Ratio[3] **(A) / (B)**	**4.49**	**(0.24)**

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

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

3) Ratio of Net Debt to EBITDA is computed using net debt and EBITDA, in each case excluding amounts attributable to ring-fenced subsidiaries and per existing financial covenants of the company, should not exceed 5.5x.

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