SMC GLOBAL POWER

A SUBSIDIARY OF SAN MIGUEL CORPORATION

SMC Global Power Holdings Corp.

155 EDSA, Wack-Wack, Mandaluyong City, Philippines

**Shelf Registration in the Philippines of
Fixed Rate Bonds in the aggregate principal amount
of up to ₱60,000,000,000**

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

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

The date of this Prospectus is March 29, 2019

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

This Prospectus ("**this Prospectus**" and, as the context may require, the term includes the relevant Offer Supplement) relates to the shelf registration and each offer and sale in the Philippines within the Shelf Period as defined below (each "**Offer**") of fixed rate bonds (the "**Bonds**") with an aggregate principal amount of Sixty Billion Pesos (₱60,000,000,000) by SMC Global Power Holdings Corp. (the "**Company**", the "**Issuer**" or "**SMC Global Power**") to be listed and traded in the Philippine Dealing & Exchange Corp. ("**PDEx**").

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

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

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

On February 6, 2019, the Company filed an application with the Philippine Securities and Exchange Commission ("**SEC**") to register the Bonds under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) ("**SRC**").

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For a more detailed discussion on the risks in investing in the Bonds, see the section entitled "Risk Factors and Other Considerations", 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, 2015, 2016 and 2017.

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

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

SMC GLOBAL POWER HOLDINGS CORP.

By:

RAMON S. ANG
Chairman & Chief Executive Officer and
President & Chief Operating Officer

SUBSCRIBED AND SWORN to before me this MAR 29 2019, affiant exhibiting to me his Passport with No. P4589066A issued on 2 October 2017 as competent evidence of identity.

Doc. No. : 450;
Page No.: 91;
Book No.: II;
Series of 2019.

JULIE ANN B. DOMINO-PABLO
Appointment No. 0470-18
Notary Public for Mandaluyong City
Until December 31, 2019
No. 155 EDSA, Brgy. Wack-Wack, Mandaluyong City
Roll No. 57163
PTR No. 3823278; 01/04/2019; Mandaluyong City
IBP Lifetime Member No. 012880; 6/17/14; Quezon City Chapter
MCLE Compliance No. VI-0016980; 12/28/2018; Pasig City

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

Conventions which apply to this Prospectus

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

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

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Forward-Looking Statements

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

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

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

- the ability of SMC Global Power to successfully implement its strategies;
- the ability of SMC Global Power to anticipate and respond to market trends;
- changes in availability and prices of fuel used in the power plants of SMC Global Power;
- unexpected shutdowns of the power plants of which SMC Global Power acts as the Independent Power Producer Administrator ("**IPPA**") for the Sual, Ilijan and San Roque Power Plants and as owner for the Masinloc, Davao and Limay Greenfield Power Plants and the Angat Hydroelectric Power Plant (the "**AHEPP**");
- adverse weather patterns and natural disasters;
- the ability of the SMC Global Power Group to successfully manage its growth;
- the ability of SMC Global Power to successfully implement and manage its power portfolio;
- the condition of and changes in, the Philippine, Asian or global economies;
- any political instability in the Philippines;
- the ability of SMC Global Power to secure additional financing;
- changes in interest rates, inflation rates and the value of the Peso against the US Dollar and other currencies;
- price volatility in the wholesale energy spot market;
- changes in laws, rules and regulations, including tax laws and licensing requirements, in the Philippines;
- changes in power supply and demand dynamics in the Philippines; and
- competition in the Philippine power industry.

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

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

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

Should one or more of such risks and uncertainties materialize, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Any forward-looking statement or information contained in this Prospectus speaks only as of the date the statement was made.

All of the forward-looking statements of SMC Global Power made herein and elsewhere are qualified in their entirety by the risk factors discussed in “Risk Factors and Other Considerations”. These risk factors and statements describe circumstances that could cause actual results to differ materially from those contained in any forward-looking statement in this Prospectus.

Definition of Terms

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

Actual Energy Generated ………………………..…..	Actual output of the power plant measured in GWh, MWh or KWh attributable to the contracted capacity of the IPPA Power Plants, the Limay and Davao Greenfield Powerplants, and Masinloc Power Plants, as applicable.
Affiliates …………………………………………..	With respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or any Subsidiary of such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, 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 the ownership of voting securities, by contract or otherwise.
AHC ………………………………………………	Angat Hydropower Corporation.
AHEPP	Angat Hydroelectric Power Plant.
ALECO	Albay Electric Cooperative, Inc.
Alpha Water ……………………………………….	Alpha Water and Realty Services Corp.
APEC	Albay Power and Energy Corp.
Applicable Law……………………………………	Any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirement 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.
Applicant …………………………………………..	Any Person who submits a duly accomplished Application to Purchase, together with all requirements set forth therein.
Application to Purchase ………………………….	The application form accomplished and submitted by an Applicant for the purchase of a specified amount of the Series H Bonds, Series I Bonds, and Series J Bonds, together with all the other requirements set forth in such application form.
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.
BIR ……………………………………………….	Bureau of Internal Revenue of the Philippines.
Board of Directors or Directors	Board of Directors of SMC Global Power.
Bondholder ………………………………………...	A Person whose name appears, at any time, as the registered owner of the Offer Bonds in the Registry of Bondholders.
BOI	Board of Investments.
Bonanza Energy	Bonanza Energy Resources, Inc.
BOT	Build-Operate-Transfer.
BSP	Bangko Sentral ng Pilipinas.
Business Day	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.
Consolidated Net Total Debt …………………….	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 ………………………..	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) and (b) all Project Debt.
Consolidated Total Equity ………………………..	The consolidated total assets minus consolidated total liabilities plus deposit for future subscription as reported in the consolidated financial statements.
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.
Debt…………………………………………………	The sum of interest-bearing debt of the Issuer, as reflected in its financial statements.
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.
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.
IPPA Subsidiaries	SMEC, SPPC and SPDC
IRR	Implementing Rules and Regulations of EPIRA promulgated on February 27, 2002.
ISO	International Organization for Standardization.

K-Water	Korea Water Resources Corporation.
Kcal	Kilo-Calorie, a unit of heat energy.
KEILCO	KEPCO Ilijan Corporation, owner of the Ilijan Power Plant, which is a joint venture of KEPCO, Mitsubishi Corporation and TeaM Energy.
KEPCO	Korea Electric Power Corporation.
KJ	Kilo-Joule, a unit of heat energy.
KPC	PT Kaltim Prima Coal.
kV	Kilo-Volts, a unit of voltage equivalent to 1,000 volts.
KW	Kilowatt, a unit of electrical power equivalent to 1,000 watts.
KWh	Kilowatt hours, a unit of electrical energy equivalent to 1,000 watt hours.
LGC	Philippine Republic Act No. 7160, or the Local Government Code.
LGU	Local Government Unit.
LHV	Lower heating value of fuel.
Limay Combined Cycle Plant	The combined cycle power plant with installed capacity at 620 MW located in Limay, Bataan which was owned by Panasia Energy.
Limay Greenfield Power Plant	The 4 x 150 MW Limay coal-fired power plant.
Limay Cogeneration Plant	The 140 MW Limay cogeneration power plant.
Luzon Grid	An interconnected network of transmission lines running through Luzon for delivering electricity.
Main Unit	One of the four 50 MW capacity main hydroelectric generators of AHEPP.
Meralco	Manila Electric Company.
Mindanao Grid	An interconnected network of transmission lines running through Mindanao for delivering electricity.
MPPCL	Masinloc Power Partners Co. Ltd.
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	Eleventh Regular Foreign Investment Negative List issued by the Office of the President of the Philippines on October 29, 2018.
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.
NWRB	National Water Resources Board.
OEDC	Olongapo Electricity Distribution Company, Inc.
Offer Supplement.	The offer supplement to and which is issued along with this Prospectus setting out the terms and conditions of a particular Offer of Bonds.
Open Access	System of allowing qualified persons to use the transmission and/or distribution systems and associated facilities of distribution utilities subject to the payment of transmission and/or distribution wheeling rates approved by the ERC.
Panasia Energy	Panasia Energy Holdings Inc.
PBR	Performance Based Regulation.
PDEx	The Philippine Dealing & Exchange Corp.

PDTC	The Philippine Depository & Trust Corp.
PEMC	Philippine Electricity Market Corporation.
PFRS . . . . …..	Philippine Financial Reporting Standards.
Philippine peso or PhP or Pesos or ₱	The legal currency of the Republic of the Philippines.
Philippines	Republic of the Philippines.
PhilRatings	Philippine Rating Services Corporation.
PPA	Power Purchase Agreement.
PSA	Power Supply Agreement.
PSE	Philippine Stock Exchange, Inc.
PSALM	Power Sector Assets and Liabilities Management Corporation.
PSALM ER Claim	The ER Claim included in PSALM's claims against TeaM Energy.
PSC	Power Supply Contract.
PVEI	PowerOne Ventures Energy Inc.
RCOA	Retail Competition and Open Access.
RE Act	Renewable Energy Act of 2008 (Republic Act No. 9513).
Reliability Factor	Ratio, in percent, equal to (1)(a) the number of hours in a period less (b) the average unplanned outage hours in that period divided by (2) the number of hours in that period.
RES	Retail Electricity Supplier.
R.G. Manabat & Co.	R.G. Manabat & Co., a member firm of KPMG.
RPAA	Registry and Paying Agency Agreement.
RSCs . . . . …	Retail Supply Contracts.
RTGS	The Philippine Payment Settlement System via Real Time Gross Settlement.
Sanitation Code	The Code on Sanitation of the Philippines.
San Roque IPPA Agreement	The IPPA Agreement dated December 29, 2009 between PSALM and SPDC with the conformity of NPC relative to the administration of the IPP contract

	of NPC for the San Roque Power Plant.
San Roque Power Plant	Hydroelectric multipurpose power plant with contracted capacity of 345 MW located in San Manuel, Pangasinan.
San Roque PPA	The PPA made between SPDC and NPC dated October 11, 1997 in relation to the San Roque Power Plant.
SEC	The Securities and Exchange Commission of the Philippines.
SMEC	San Miguel Energy Corporation.
SMELC	San Miguel Electric Corp.
SPDC	Strategic Power Devt. Corp.
SPI	SMC PowerGen Inc.
SPPC	South Premiere Power Corp.
SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended.
SRPC	San Roque Power Corporation, operator of the San Roque power plant.
SSS	The Social Security System.
Sual ECA	Energy Conversion Agreement dated September 2, 2009 made between NPC and CEPA Pangasinan Electric Limited for the Coal-Fired Thermal Power Station at Sual, Pangasinan, Philippines.
Sual IPPA Agreement	The IPPA Agreement dated September 2, 2009 made between PSALM and SMEC with the conformity of NPC relative to the administration of the IPP contract of NPC for the Sual Power Plant.
Sual Power Plant	Coal-fired power plant with a contracted capacity of 1,000 MW located in Sual, Pangasinan.
Sultan Energy. . . . . …	Sultan Energy Phils. Corp.
Take-or-pay.	A type of contractual arrangement where, or the act whereby, a customer either takes a product at a certain price from the supplier, or pays the supplier a penalty.
Tax Code . . . . …	The National Internal Revenue Code of 1997, as amended.
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	The relevant trustee that may be engaged by the Company for each Offer and as identified in the relevant Offer Supplement.
Underwriters	Underwriters that may be engaged by the Company for each Offer and as identified in the relevant Offer Supplement. As applicable and as may be provided in the relevant Offer Supplement, the term may also include “Lead Underwriter”, “Joint Lead Underwriters”, “Issue Manager”, “Issue Managers”, “Joint Issue Managers”, “Bookrunner”, “Bookrunners” and “Joint Bookrunners”.
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, associates, and joint ventures (collectively referred to as the "**Group**") is one of the largest power companies in the Philippines, controlling 4,197 megawatts ("**MW**") of combined capacity as of September 30, 2018 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the total installed generating capacities reported in the Energy Regulatory Commission of the Philippines ("**ERC**") Resolution No. 04, Series of 2018 (the "**ERC Resolution on Grid Market Share Limitation**"), the Group believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2018.[1]

San Miguel Corporation entered the power industry in 2009 following the acquisition of rights to administer the output produced by Independent Power Producers ("**IPPs**") in privatization auctions conducted by the government through the Power Sector Assets and Liabilities Management Corporation ("**PSALM**"). Through its subsidiaries, San Miguel Corporation became the Independent Power Producer Administrator ("**IPPA**") of the following plants: (1) San Miguel Energy Corporation ("**SMEC**") became the IPPA for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) Strategic Power Devt. Corp. ("**SPDC**") became the IPPA for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010; (3) South Premiere Power Corp. ("**SPPC**") became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas, in June 2010. The Sual Power Plant, San Roque Power Plant and the Ilijan Power Plant are collectively referred to herein as the "**IPPA Power Plants**". SMEC, SPPC and SPDC are collectively referred to herein as the "**IPPA Subsidiaries**".

An IPPA under the IPP Administration Agreement (the "**IPPA Agreement**") has the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, SMEC, SPDC and SPPC also have the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Philippine Wholesale Electricity Spot Market ("**WESM**").

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

[1] Market share is computed by dividing the total capacity of the Company (4,197,000 KW) with the installed generating capacity of Luzon Grid, Mindanao Grid and National Grid (15,175,967 KW, 3,496,262 KW and 21,867,117 KW, respectively based on data provided under ERC Resolution No. 04 Series of 2018; with an additional 164,000 KW capacities in the Luzon Grid and National Grid due to the commencement of commercial operations of power plants under SMC Global Power Group after the issuance of the relevant ERC Resolution).

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 its 100% equity interest in San Miguel Electric Corp. ("**SMELC**"), which is a grantee of a Retail Electricity Supplier ("**RES**") license issued by the ERC.

In April 2013, SMC Global Power, through SMC Power Generation Corp. ("**SPGC**"), acquired 35% equity stake in Olongapo Electric Distribution Company, Inc. ("**OEDC**"). In October 2013, SMC Global Power entered into a 25-year concession agreement with Albay Electric Cooperative, Inc. ("**ALECO**"), which became effective upon confirmation of the National Electrification Administration ("**NEA**") in November 2013. SMC Global Power organized and established a wholly-owned 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.

In July 2013, SMC Global Power through San Miguel Consolidated Power Corporation ("**SMCPC**"), a wholly-owned subsidiary, commenced construction works for its 2 x 150 MW coal-fired power plant in Malita, Davao (the "**Davao Greenfield Power Plant**").

In September 2013, SMC Global Power, through SMC Powergen Inc. ("**SPI**"), acquired the 140 MW Co-Generation Solid Fuel-Fired Power Plant located at the Petron Bataan Refinery, Barangay Alangan, Limay, Bataan, ("**Limay Co-Gen Power Plant**") from Petron Corporation. On December 23, 2016, the Limay Co-Gen Power Plant was purchased back by Petron Corporation from SPI.

In October 2013, SMC Global Power through SMC Consolidated Power Corporation ("**SCPC**"), a wholly-owned subsidiary, commenced construction works for its 4 x 150 MW coal-fired power plant in Limay, Bataan (the "**Limay Greenfield Power Plant**"). The second 2 x 150 MW of the Limay Greenfield Power Plant was formerly owned by another subsidiary, the Limay Premiere Power Corp., but this was later transferred to SCPC in June 2017. SCPC was granted a RES license by the ERC on 24 August 2016, which gave it the ability to directly contract with contestable customers.

In November 2014, SMC Global Power, through its subsidiary PowerOne Ventures Energy Inc. ("**PVEI**"), acquired 60% stake in Angat Hydropower Corporation ("**AHC**"), the owner and operator of the 218 MW Angat Hydroelectric Power Plant ("**AHEPP**") located in San Lorenzo, Norzagaray, Bulacan.

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

Units 1 and 2, with a combined rated capacity of 300 MW, of the Davao Greenfield Power Plant attained commercial operations on July 26, 2017 and February 26, 2018, respectively. Units 1, 2 and 3 with a rated capacity of 450 MW of the Limay Greenfield Power Plant attained commercial operations on May 26, 2017, September 26, 2017, and March 26, 2018, respectively, while Unit 4 is expected to commence commercial operations in second quarter of 2019.

On March 20, 2018, SMC Global Power acquired 51% and 49% equity interests in SMCGP Masin Pte. Ltd. (formerly, Masin-AES Pte. Ltd. and hereinafter referred to as "**SMCGP Masin**") from AES Phil Investment Pte. Ltd. ("**AES Phil**") and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. ("**MPPCL**") and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as "**SMCGP Philippines Energy**"). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3) (Units 1, 2 and 3 are collectively referred to as the

"**Masinloc Power Plant**"), and the 10 MW battery energy storage project (the "**Masinloc BESS**"), all located in Masinloc, Zambales, Philippines (collectively, the "**MPPCL Assets**"),while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility ("**Kabankalan BESS**") in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of SMC Global Power. MPCCL also owns 40% of Alpha Water Realty & Services, Corp. ("**Alpha Water**")

As part of the sale, SMC Global Power also acquired SMCGP Transpower Pte. Ltd. (formerly, AES Transpower Private Ltd. and hereinafter referred to as "**SMCGP Transpower**"), and SMCGP Philippines Inc. (formerly, AES Philippines Inc. and hereinafter referred to as "**SPHI**"). SMCGP Transpower was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

On July 13, 2018, Prime Electric Generation Corporation ("**PEGC**"), a wholly-owned subsidiary of SMC Global Power, acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water, representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the MPPCL Assets in Zambales Province is located.

On September 19, 2018, PEGC and Oceantech Power Generation Corporation purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

SMC Global Power, through SMEC, SPDC, SPPC, AHC, SMELC, SCPC, SMCPC and MPPCL 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 most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

The following table sets forth selected data in respect of the Company's power generation assets and interests as of the date of this Prospectus:

		Operational IPPA Plants			**JV Plant**	**Newly Acquired Plant**	**Greenfield Plants**	
		Sual	**Ilijan**	**San Roque**	**Angat**	**Masinloc and Masinloc BESS**	**Davao**	**Limay**
Type		Coal	Natural Gas	Hydro	Hydro	Coal and Battery	Coal	Coal
Commercial Operations Date		1999	2002	2003	1967 (112 MW) 1968 (100 MW) 1978 (6 MW)	1998 (660MW), 2018 (14MW), 2018 (10MW), 2019E (335MW)	2017 (150MW), 2018 (150MW)	2017 (300MW), 2018 (150MW), 2019E (150MW)
Year of Acquisition		2009	2010	2010	2014	2018	-	-
Total Installed Capacity (MW)[(1)]		1,000	1,200	345	218	1,019	300	600
Technology		Pulverized Coal ("**PC**")	Combined Cycle	Storage Hydropower	Storage Hydropower	PC and Battery Energy Storage System	Circulating Fluidized Bed	Circulating Fluidized Bed
Emission Levels								
NOx	**(Mg/Nm^3)**	460.7	-	-	-	210.1	-	-
	(ppm)	-	-	-	-	-	80.1	101.3
SOx	**(Mg/Nm^3)**	996.3	-	-	-	299.8	-	-
	(ppm)	-	-	-	-	-	93.5	82.8
PM (Mg/Nm^3)		16.1	-	-	-	56.8	4.9	6.5
Operator		TeaM Sual	KEILCO	SRPC	AHC	MPPCL	Safetech	Mantech

	Operational IPPA Plants			JV Plant	Newly Acquired Plant	Greenfield Plants	
	Sual	**Ilijan**	**San Roque**	**Angat**	**Masinloc and Masinloc BESS**	**Davao**	**Limay**
	Corp.						
Offtakers[2]	Meralco, ECs, DUs, 3rd Party RES, DCCs, WESM	Meralco, WESM	Intercompany, WESM	WESM	Meralco, ECs, CCs, WESM	ECs, DUs, Industrial	DCCs, ECs, DUs, CCs
IPPA Expiry / Asset Transfer Date[3]	2024	2022	2028	-	-	-	-

Notes:

[1] *Includes expected capacity following the expected commencement of commercial operations of (i) Unit 4, Limay Greenfield Power Plant and (ii) Unit 3, Masinloc Power Plant, which are excluded in the calculation of SMC Global Power's combined installed capacity as of September 30, 2018.*

[2] *DUs: Distribution Utilities; ECs: Electric Cooperatives; CCs: Contestable Customers; DCCs: Directly Connected Customers.*

[3] *Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028, respectively. See "—IPPA Framework—IPPA Asset Transfer Process."*

For the years ended December 31, 2015, 2016 and 2017 and the nine months ended September 30, 2017 and 2018, respectively, SMC Global Power, through its subsidiaries, sold 14,714 gigawatt hours ("**GWh**"), 15,758 GWh, 15,707 GWh, 11,634 GWh, and 15,112 GWh of power pursuant to offtake agreements and 1,844 GWh, 1,588 GWh, 1,520 GWh, 1,184 GWH, and 2,559 GWh of power through the WESM, respectively. During the years ended December 31, 2015, 2016 and 2017 and the nine months ended September 30, 2017 and 2018, SMC Global Power, through its subsidiaries, purchased 690 GWh, 767 GWh, 684 GWh, 491 GWh, and 889 GWh of power from the WESM, respectively.

For the year ended December 31, 2017, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱82,791 million, ₱8,217 million and ₱7,654 million, respectively, and for the nine months ended September 30, 2018, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱89,111 million, ₱4,366 million, and ₱8,580 million, respectively. As of December 31, 2017, and September 30, 2018, SMC Global Power had total consolidated assets of ₱350,173 million and ₱501,379 million, respectively.

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

SMC Global Power is considering further expansion of its power portfolio of additional capacity nationwide through greenfield power projects over the next few years, depending on market demand. With the increased development of greenfield power plants, an increasing portion of the portfolio of SMC Global Power is expected from Company-owned and Company-operated IPPs. SMC Global Power would also continue to identify strategic acquisitions of existing power generation capacity by participating in the bidding of selected National Power Corporation of the Philippines ("**NPC**")-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, and privately-owned plants with commercial and technical profile that fit its existing portfolio of power assets.

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

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

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation, a diversified conglomerate in the Philippines founded in 1890 that is listed in The Philippine Stock Exchange, Inc. (the "**PSE**") -with market-leading businesses in the food, beverage, packaging, fuel and oil, infrastructure, property and investments in car distributorship and banking. 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.

Competitive Strengths

SMC Global Power believes its competitive strengths are the following:

- leading power company in the Philippines with a strong growth platform;
- well-positioned to capture future demand growth
- stable and predictable cash flows;
- flexible and diversified power portfolio;
- established relationships with world class partners;
- a member of the San Miguel Corporation group of companies;
- experienced and highly competent management team; and
- strong commitment to stringent environmental policies and pollution controls

Business Strategies

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

- optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins;
- continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments;
- vertically integrate complementary businesses in order to diversify its energy portfolio;
- continue to pursue and develop measures to reduce gas emissions and operate power plants within and below applicable environmental compliance standards; and
- leverage operational synergies with San Miguel Corporation group of companies.

Risk of Investing

Prospective investors should also consider the following risks of investing in the Offer:

- Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;
- Risks relating to San Miguel Corporation, its subsidiaries and their business and operations; and
- The nature, the absence of a liquid secondary market and volatility, and other risks relating to the Offer.

For a more detailed discussion, see "Risk Factors and Other Considerations" in this Prospectus.

CORPORATE INFORMATION

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

Summary of Financial Information

Prospective purchasers of the Offer should read the summary financial data below together with the financial statements, including the notes thereto, included in this Offer Supplement and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary financial data for the 3 years ended 31 December 2017, 2016 and 2015 are derived from the audited financial statements of SMC Global Power, including the notes thereto, which are found as Annex "B" of this Prospectus. The detailed financial information for the 3 years ended 31 December 2017, 2016 and 2015 are found on Annex "B" of this Prospectus and the 9 months ended 30 September 2018 and 2017 are found on Annex "A" of this Prospectus.

*The summary of financial and operating information presented below as of and for the years ended 31 December 2017, 2016 and 2015 were derived from the consolidated financial statements of SMC Global Power, audited by R.G. Manabat & Co. and prepared in compliance with the Philippine Financial Reporting Standards ("**PFRS**"). The financial and operating information presented below as of and for the nine months ended 30 September 2018 and 2017 were derived from the unaudited consolidated financial statements of SMC Global Power prepared in compliance with Philippine Accounting Standards ("**PAS**") 34, "Interim Financial Reporting". The information below should be read in conjunction with the consolidated financial statements of SMC Global Power and the related notes thereto, which are included in Appendices "A" and "B" of this Prospectus. The historical financial condition, results of operations and cash flows of SMC Global Power are not a guarantee of its future operating and financial performance.*

CONSOLIDATED STATEMENT OF INCOME DATA

	For the years ended December 31,			For the nine months ended September 30,	
	2015	2016	2017	2017	2018
	(Audited)			(Unaudited)	
	(in millions of ₱ except per share data)				
Revenues	77,506.7	77,972.4	82,790.6	62,116.6	89,111.4
Costs and Expenses					
Cost of power sold:					
Energy fees	23,224.2	20,477.9	23,726.5	17,695.9	18,544.3
Coal, fuel oil and other consumables	10,376.6	10,046.7	13,039.1	9,346.3	23,556.0
Power purchases	8,330.6	7,836.6	10,725.5	7,649.7	8,563.5
Depreciation and amortization	6,466.4	6,164.9	5,842.3	4,208.1	6,614.0
Plant operations and maintenance fees	502.2	476.3	345.3	92.6	1,315.4
Operating expenses	4,904.1	6,239.7	4,835.5	3,455.7	4,765.2
	53,804.1	51,242.1	58,514.3	42,448.3	63,358.4
	23,702.6	26,730.3	24,276.3	19,668.3	25,753.0
Interest income	414.4	200.5	460.9	298.4	504.9
Gain on sale of property, plant and equipment	-	116.4	-	-	-
Equity in net (losses) of associates and joint venture – net	(528.4)	(294.8)	(40.4)	(53.0)	(253.9)
Interest expense and other financing charges	(13,130.3)	(12,354.2)	(13,244.6)	(10,068.6)	(12,621.9)
Other income (charges) - net	(5,926.0)	(6,881.8)	2,944.2	(744.3)	(7,386.2)
Income before income tax	4,532.3	7,516.4	14,396.4	9,100.8	5,995.9
Income tax expense – net	2,703.4	3,365.7	6,179.5	3,381.6	1,629.9
Net Income	1,828.9	4,150.7	8,216.9	5,719.2	4,366.0
Attributable to:					
Equity holders of the SMC Global Power	1,828.9	4,150.7	8,216.9	5,719.2	4,347.7
Non-controlling interest.	-	-	-	-	18.3
	1,828.9	4,150.7	8,216.9	5,719.2	4,366.0
Basic/diluted earnings per share	(₱0.07)	₱0.97	₱4.11	₱2.73	₱0.60

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

	As of December 31			As of September 30	
	2015	2016	2017	2017	2018
	(Audited)			(Unaudited)	
			(in millions of ₱)		
ASSETS					
Current Assets					
Cash and cash equivalents	22,241.4	21,491.4	28,655.4	31,257.8	34,115.5
Trade and other receivables – net	18,473.6	22,342.9	20,435.1	22,319.3	28,069.8
Inventories	1,263.2	2,272.3	3,147.7	1,827.4	5,782.6
Prepaid expenses and other current assets	15,068.8	17,683.0	17,791.9	16,830.2	22,189.2
Assets held for sale	-	184.3	-	64.8	-
Total Current Assets	57,047.0	63,973.9	70,030.1	72,299.5	90,157.1
Noncurrent Assets					
Investments and advances – net	10,612.9	16,245.4	16,621.1	16,520.6	16,824.8
Property, plant and equipment – net	255,453.0	246,488.0	250,961.3	250,611.2	314,507.2
Deferred exploration and development costs	689.6	693.4	699.0	696.7	702.2
Intangible assets and goodwill – net	2,413.2	2,572.1	2,594.1	2,580.9	72,616.8
Deferred tax assets	2,746.0	2,955.6	1,316.9	2,285.0	1,721.6
Other noncurrent assets – net	2,248.2	1,020.8	7,950.5	8,282.0	4,849.0
Total Noncurrent Assets	274,162.9	269,975.3	280,143.0	280,976.4	411,221.6
	331,209.9	333,949.2	350,173.0	353,275.9	501,378.8
LIABILITIES AND EQUITY					
Current Liabilities					
Loans payable.	-	-	5,930.0	19,873.5	2,430.9
Accounts payable and accrued expenses	32,841.0	37,729.4	31,074.7	37,475.2	33,965.1
Finance lease liabilities - current portion	16,546.8	16,344.3	16,844.4	16,032.2	19,396.8
Current maturities of long term debt – net of debt issue costs.	15,647.2	1,040.7	1,139.6	812.7	227.0
Income tax payable	99.3	127.2	151.9	206.2	4,167.2
Total Current Liabilities	65,134.3	55,241.6	55,140.7	74,399.7	60,187.0
Noncurrent Liabilities					
Long-term debt - net of current maturities and debt issue costs	42,960.6	65,283.0	89,589.1	70,302.6	210,010.3
Finance lease liabilities - net of current portion . .	162,646.5	153,745.3	137,949.3	144,330.3	129,297.5
Deferred tax liabilities	3,882.9	4,785.2	7,324.1	5,850.4	7,186.6
Other noncurrent liabilities – net of current portion	150.3	223.5	404.4	253.1	878.8
Total Noncurrent Liabilities	209,640.3	224,037.0	235,266.8	220,736.4	347,373.2
Total Liabilities	274,774.6	279,278.6	290,407.5	295,136.1	407,560.2
Equity					
Capital stock	1,062.5	1,062.5	1,062.5	1,062.5	1,062.5
Additional paid-in capital	2,490.0	2,490.0	2,490.0	2,490.0	2,490.0
Redeemable perpetual securities.	-	-	-	-	32,751.6
Undated subordinated capital securities	26,933.6	26,933.6	26,933.6	26,933.6	26,933.6
Equity reserves.	769.7	758.9	761.6	758.9	1,199.9
Retained earnings	25,179.5	23,425.6	28,517.8	26,894.8	29,381.0
Total Equity	56,435.3	54,670.6	59,765.5	58,139.8	93,818.6
	331,209.9	333,949.2	350,173.0	353,275.9	501,378.8

CONSOLIDATED STATEMENT OF CASH FLOW DATA

	For the years ended December 31			For the nine months ended September 30	
	2015	2016	2017	2017	2018
	(Audited)			(Unaudited)	
	(in millions of ₱)				
Net cash provided by (used in):					
Operating activities.	25,030.1	30,479.6	21,845.3	21,989.4	12,177.4
Investing activities	(34,530.1)	(6,017.4)	(16,279.3)	(15,162.2)	(100,750.4)
Financing activities.	(6,955.4)	(25,233.8)	1,526.7	2,828.0	93,272.0
Effect of exchange rates changes on cash and cash equivalents.	392.5	21.6	71.2	111.3	761.2
Net increase (decrease) in cash and cash equivalents.	(16,062.9)	(750.0)	7,164.0	9,766.4	5,460.2
Cash and cash equivalents at beginning of year . .	38,304.3	22,241.4	21,491.4	21,491.4	28,655.3
Cash and cash equivalents at end of period	22,241.4	21,491.4	28,655.4	31,257.8	34,115.5

ADDITIONAL FINANCIAL AND OPERATING DATA

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

	For the years ended December 31,			For the nine months ended September 30,	
	2015	2016	2017	2017	2018
	(Audited)			(Unaudited)	
	(in millions of ₱)*				
Net income	1,828.9	4,150.7	8,216.9	5,719.2	4,366.0
EBITDA [1]	5,458.4	10,475.4	7,654.4	6,955.9 [2]	8,580.1 [2]
Electricity sold (GWh)	16,557.7	17,346.5	17,226.9	12,817.8	17,670.4
of which: bilateral offtake agreements	14,713.7	15,758.1	15,706.9	11,633.5	15,111.8
of which: WESM sales	1,844.0	1,588.4	1,520.0	1,184.3	2,558.6
Electricity bought on WESM (GWh)	690.4	767.2	678.4	491.2	888.7
Average realized/paid electricity price (₱/MWh)					
For electricity sold under bilateral offtake agreements	4,845.1	4,684.5	4,986.5	5,039.5	5,381.2
For electricity sold on WESM	3,371.5	2,615.2	2,939.1	2,946.8	3,045.0
For electricity purchased on WESM	3,304.4	3,173.2	4,346.0	4,870.9	4,433.0
Net debt [3]	203,683.9	198,846.7	187,173.3	182,819.1	271,308.4
Net debt to equity ratio [4].	n/a	n/a	2.97	3.01	2.86
Interest coverage ratio [4]	n/a	n/a	2.88	2.76	2.57

** Except for net debt to equity ratio and interest coverage ratio.*

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

[2] *EBITDA for the most recent four quarterly periods ended September 30, 2017 and 2018 is ₱7.06 billion and ₱8.79 billion, respectively.*

[3] *Net debt represents the consolidated debt of the Company and its subsidiaries – net of debt issue costs less cash and cash equivalents and including PSALM finance lease liabilities, in each case, excluding amounts attributable to ring-fenced subsidiaries.*

[4] *Starting June 30, 2017, the relevant financial covenants of the Company will be Net Debt to Equity Ratio of not more than 3.25x and Interest Coverage of not less than 2.25x.*

CALCULATION OF EBITDA

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

	For the years ended December 31,			For the nine months ended September 30,	
	2015	2016	2017	2017	2018
	(Audited)			(Unaudited)	
	(in millions of ₱)				
Net income	690.8	5,390.7	9,215.1	6,982.2	1,672.6
Add:					
Income tax expense	2,215.7	3,677.9	5,352.4	3,360.6	2,368.5
Finance cost	12,385.6	12,342.3	11,747.7	8,836.1	10,857.4
Interest income	(395.9)	(196.6)	(368.5)	(258.7)	(347.3)
Depreciation	5,271.6	6,338.7	5,607.7	4,136.1	5,038.1
Less:					
Foreign exchange gains (loss)	(7,570.9)	(6,910.1)	(975.0)	(2,491.8)	(8,211.4)
Aggregate fixed payments made to PSALM [1]	22,280.1	23,873.3	(24,875.0)	(18,592.1)	(19,220.6)
Gain on sale of property, plant and equipment.	-	114.4	-	-	-
EBITDA [2]	5,458.4	10,475.4	7,654.4	6,955.9 [3]	8,580.1 [3]

[1] *Aggregate fixed payments made to PSALM are reflected in the Statement of Cash Flows as Payments of Finance Lease Liabilities.*
[2] *Excludes amount from ring-fenced subsidiaries. Subsidiaries with project debts were nominated as a ring-fenced subsidiaries. If the amounts from ring-fenced subsidiaries were to be included, the EBITDA would amount to ₱9.09 billion, ₱10.10 billion, and ₱9.01 billion for the years ended December 31, 2015, 2016 and 2017, respectively, and ₱7.44 billion and ₱14.07 billion for the nine months ended September 30, 2017 and 2018, respectively.*
[3] *EBITDA for the most recent four quarterly periods ended September 30, 2017 and 2018 is ₱7.06 billion and ₱8.79 billion, respectively.*

Summary of the Offering

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

Risk Factors and Other Considerations

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

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

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

RISKS RELATING TO SMC GLOBAL POWER

Increased competition in the Philippine power industry

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC owned and controlled power generation assets, the establishment of the WESM, the start of the Retail Competition and Open Access ("**RCOA**"), and implementation of mandatory Competitive Selection Process ("**CSP**") for Distribution Utilities, and the implementation of the green energy option which allows contestable customers to directly contract with a renewable energy supplier. 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.

Suspension of issuance and renewal of Retail Electricity Supplier ("RES") licenses.

In June 2015, the DOE through its Department Circular DC2015-06-0010 enjoined the ERC to immediately issue the supporting guidelines including the revised rules for issuance of RES licenses. In compliance with the department circular, the ERC issued the following resolutions to govern the issuance of new RES licenses and renewal of existing RES licenses and the registration of retail customers:

- Resolution No. 5, Series of 2016, entitled "A Resolution Adopting the 2016 Rules Governing the Issuances of the Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefore" (the "RES License Guidelines")
- Resolution No. 10, Series of 2016, entitled "Adopting the Revised Rules for Contestability"
- Resolution No. 11, Series of 2016, entitled "Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market"
- Resolution No. 28, Series of 2016, entitled "Revised Timeframe for Mandatory Contestability"

However, in February 2017, the Philippine Supreme Court, acting on a petition filed by certain entities, issued a temporary restraining order on the implementation of the foregoing ERC resolutions. To date, the temporary restraining order has not been lifted as of the date hereof. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the retail competition and open access.

While certain subsidiaries of SMC Global Power have valid and existing RES licenses, the ability of SMC Global Power to directly contract with contestable customers may be limited if prior to the expiry of such RES licenses (a) the temporary restraining order on the RES License Guidelines is not lifted or (b) an alternative regulatory framework governing the retail sale of electricity is not put in place. Such limitation on the ability of SMC Global Power to directly contract with contestable customers could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Disruptions in fuel supply

The operations of the Sual Power Plant, Ilijan Power Plant, Masinloc Power Plant, and the Limay Greenfield Power Plant and Davao Greenfield 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, Masinloc Power Plant, and Limay Greenfield Power Plant and Davao Greenfield Power Plant. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants and, subject to regulatory approval, is able to pass on the fuel cost to its customers (particularly for distribution utilities and electric cooperatives).

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 at competitive prices 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 the Company, 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.

For example, the Ilijan Power Plant sources natural gas for its operations from the Malampaya Gas Facility in Palawan ("**Malampaya**"). According to the DOE, Malampaya's natural gas output is estimated to decline substantially by 2022 as the Malampaya Gas Supply is depleted. SMC Global Power is currently exploring alternative sources of fuel, such as floating storage regassification units containing Liquified Natural Gas ("**LNG**") or a full-size LNG terminal, together with the other stakeholders of the Malampaya Gas Facility. Alternatively, the Ilijan Power Plant may also be reconfigured to be a diesel or an LNG-type facility in the future. Reduced supply of high-grade coal may also cause disruptions in the Company's fuel supply. SMC Global Power has invested in Circulating Fluidized Bed or Super Critical Power Plants (for the Limay Greenfield Power Plant and Davao Greenfield Power Plant) that can use low-grade coal and has retrofitted its existing PC Power Plants (Masinloc Units 1 and 2) to use low-grade coal, which is also less expensive and relatively more abundant compared to high grade coal (i.e., coal of 6,000 kcal upwards). There can be no assurance that the Company will be able to obtain the quality of coal in such quantities that it requires for its operations.

Such factors, which may include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants or incur significant costs to source replacement power or reconfigure its 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 Trubaindo Coal Mining, Vitol Asia Pte. Ltd., PT Kaltim Prima Coal ("**KPC**"), PT Indominco, Mitsubishi International RTM and Bayan for its power plants. The diversity of coal suppliers of the Company provides assurance of fuel supply limiting any issues with any specific region or supplier. For natural gas, NPC/PSALM is contractually obligated to deliver supply of fuel to the Ilijan Power Plant under the Ilijan IPPA Agreement. Neither SMC Global Power, nor SPPC, has direct relationship with the supplier of natural gas. However, events of shutdown or gas restrictions can be interpreted as force majeure or may be covered by the outage provisions of the downstream offtake agreements of SPPC, limiting any adverse effects of disruptions in the supply of natural gas to SPPC.

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

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

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

Although the energy conversion agreements ("**ECAs**") with the IPPs or power purchase agreements ("**PPAs"**) with NPC in respect of the IPPA Power Plants contain bonus and penalty provisions, and the Company monitors the IPPs' adherence to the minimum operating protocols specified in the IPPA and ECAs, there is still a risk that the IPPs will fail 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")

Based on the total installed generating capacities reported in ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% market share of the National Grid, 25% the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2018. The EPIRA limits the market share of a participant to 30% per grid and 25% of the National Grid by installed capacity. While SMC Global Power is currently within its market share cap even taking into account the greenfield power plants under construction, it may not receive permission to further 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.

Development of greenfield power projects

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

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

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

Adverse effect of WESM price fluctuations

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

- increases and decreases in generation capacity in the markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation power plants, or expansion of existing power plants;
- additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;

- electric supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and, if warranted under applicable circumstances, adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and environmental regulations and legislation.

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

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

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

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

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

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid Motions. On June 2018, the intervenors filed their respective Motions for Reconsideration of the said Resolution of the Court of Appeals dated March 22, 2018. On July 27, 2018, SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to ₱2.626 billion, plus interest.

The strategy of the Company is to source majority of its revenues from bilateral offtake agreements. This ensures cash flows while minimizing the exposure of the Company to any unfavorable fluctuations in WESM prices. Revenue from bilateral contracts with offtakers contributed 92%, 95%, and 95% of total revenue for the years ended December 31, 2015, 2016 and 2017, respectively, and 94% and 91% of the total revenue for nine months ended September 30, 2017 and 2018 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, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power.

In particular, sales to Meralco under the respective PSA in relation to the Ilijan, Sual and Masinloc Power Plants comprised approximately 47% of the Company's total revenue for the nine months ended September 30, 2018. The Ilijan Power Plant PSA will expire in December 2019 and can be extended up to the end of the IPPA period in 2022, while the Sual Power Plant PSA will expire in December 2019 and can be extended up to the end of the IPPA period in 2024, in each case upon mutual agreement of the parties. The MPPCL's PSA with Meralco which is set to expire in 2019 has been extended up to 2022, subject to ERC approval. The PSA of Meralco (RES) with Masinloc Power Plant and Sual Power Plant will expire in 2024 and can be extended up to 48 billing periods, 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. If Meralco enters the power generation business, it may 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 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 bilateral offtake agreements with subsidiaries of 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 bilateral offtake agreements will be renewed or will be able to expand its customer base. Further, the Company has an experienced sales and marketing team that actively markets to its existing and to new financially capable prospective customers. In addition, the Company maintains good working relationships with its offtakers and has cultivated a long history of reliability and good customer service.

Standard terms of the 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 fail to generate or deliver electricity beyond the contractually agreed outage periods, its counterparts in its PSCs may have a right to terminate those contracts, and replacement contracts may not have been entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

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

Operating and other risks leading to network failures, equipment breakdowns, planned or unplanned outages

Power generation is vulnerable to human error in operation, equipment failure, catastrophic events, natural disasters, sabotage, terrorist attacks or other events which can cause service interruptions, network failures, breakdowns or unplanned outages. There is no assurance that accidents will not occur with the Company’s power projects or that the preventative measures taken by the Company will be fully effective in all cases, particularly in relation to external events that are not within its control. Moreover, any loss from such events may not be recoverable under the Company’s insurance policies. The Company’s income and cash flows will be adversely affected by any disruption of operations of its plants due to any of the foregoing risks. Any unplanned plant shutdowns for an extended period of time will have a materially adverse effect on the Company’s ability to sell power and the Company’s results of operations could suffer. For example, in 2017 the Sual Power Plant Unit 2 experienced an outage for 158 days due to transformer failure. In the event of a service disruption, the Company would typically seek to purchase replacement power, which may be at a significantly greater cost than power generated by it or than it is able to recover. SMC Global Power is also entitled to reduction in the IPPA payments to PSALM for fixed and generation fees of the plant that will compensate it for any loss in margins from prolonged outages. Any of these factors may be beyond the Company’s control, and their occurrences could have a material adverse effect on the Company’s business, financial condition or results of operations.

Insurance coverage for generation plants

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

For the power plants of SMC Global Power, SCPC, SMCPC and MPPCL have secured necessary insurance for their respective power plants, which cover physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. The existing business interruption insurance policies of these entities however do not cover any declines in production or adverse publicity that SCPC, SMCPC, or MPPCL may suffer as well as any significant resource that SCPC, SMCPC, or MPPCL may invest to address such losses. Any unexpected losses caused by such events against which these subsidiaries are not fully insured could have material adverse effect on their businesses, financial condition and results of operations.

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

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

No direct contractual and operational relationship

SMC Global Power is dependent on the operators of the IPPA Power Plants to generate power from the IPPA Power Plants, 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 SMC Global Power allow adjustments for foreign exchange rate fluctuations, SMC Global Power remains subject to foreign exchange risk. A substantial amount of 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 US dollars to Pesos payable under the IPPA Agreements is approximately 50% at the exchange rates prevailing as of the dates of the respective IPPA Agreements. 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 availed U.S.$1,200 million term facilities from various foreign financial institutions in March 2018. Moreover, in May 2014 and August 2015, SMC Global Power issued undated subordinated capital securities amounting to U.S.$600 million which are considered as part of equity.

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 the Group and its ability to service its foreign currency-denominated liabilities.

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

Variations in hydrological conditions and irrigation requirements

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

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

The levels of hydro-electric production can therefore vary from period to period depending on the water levels in the reservoir and downstream irrigation and water supply requirements. In years of less favorable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoir has low water levels, which reduces 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.

Interest rate risk

While SMC Global Power intends, whenever appropriate, to enter into hedging transactions which may mitigate its interest rate exposure, any such hedging policy may not adequately cover its exposure to interest rate fluctuations and such fluctuations may result in a high interest expense and an adverse effect on its business, financial condition and results of operations.

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.

There is no assurance that the Company will be able to obtain additional financing when needed on commercially acceptable terms or at all. Any additional debt financing may place restrictions on the Company, which may, among others:

- increase vulnerability to general adverse economic and industry conditions;
- limit ability to pursue growth plans;
- limit ability to raise additional financing and access credit or equity markets to satisfy its repayment obligations as they become due on favorable terms, or at all;
- require the Company to dedicate a substantial portion of cash flow from operations to payments on debt and capital securities, thereby reducing the availability of its cash flow to fund capital expenditure, working capital requirements and other general corporate purposes; and/or
- limit its flexibility in planning for, or reacting to, changes in its business and its industry, either through the imposition of restrictive financial or operational covenants or otherwise.

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 "Competitive Strengths and Business Strategy" portion below.

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: (i) a "fixed" payment, the amount of which in any given month is specified by the IPPA Agreement itself; and (ii) 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 Visayas-Mindanao Grid.

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

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 the sale of power.

Certain tax exemptions and tax incentives

As of September 30, 2018, certain subsidiaries of SMC Global Power, namely, SCPC for the Limay Greenfield Power Plant, SMCPC for the Davao Greenfield Power Plant and MPPCL for the Masinloc Power Plant which were registered with the Board of Investments ("**BOI**") as new operators with pioneer status and non-pioneer status for its greenfield projects, 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.

If these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is currently 30% of net taxable income. As a result, the 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.

Regulatory Risks

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

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

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, 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 its facilities. Moreover, SMC Global Power and its subsidiaries may have made significant capital expenditures that it may no longer recover commercially in the event that pertinent laws or regulations impose restrictions on their operations and re-financing, particularly those related to power plants that use fossil fuels.

For example, recently promulgated implementing rules and regulations by the DOE on "Renewable Portfolio Standards" mandates electric power industry participants (such as generation companies, DUs and ECs) to source or produce a fraction of their electricity requirements from eligible renewable energy resources and undertake a competitive selective process in sourcing renewable energy.

The Philippines is also a party to the 2015 Paris Agreement which aims to keep the increase in global average of temperature to well below 2°C above pre-industrial levels and to limit the increase to 1.5°C, since this would substantially reduce the risks and effects of climate change. As a party to the agreement, the Philippines may impose more stringent regulations, particularly on coal plant emissions, requiring expensive pollution controls on coal-fired power plants, among other measures. These measures may significantly increase costs of coal-fired power plants and, at the same time, increase the cost competitiveness of renewable energy. As significant portion of the captive market may shift away from coal and other hydrocarbon fuels may expose the coal-fired power plants of the Company to stranded-asset risk (i.e., hazard of an asset suffering from an unanticipated write-down, devaluation, or conversion to liability).

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. The Company and its subsidiaries maintain a strong compliance culture and have processes in place in order to manage adherence to laws and regulations.

With respect to the ongoing trend and shift towards renewables, SMC Global Power believes that, given the various uncertainties on future sources of reliable and cost-effective energy, its existing power asset portfolio and pipeline of power plant projects are well suited and readily available to contract, at viable terms, a significant portion of the continuously increasing demand whether from the captured or the contestable markets. Nevertheless, SMC Global Power continues to pursue a diversified power portfolio which includes renewable energy plants and is confident that it can leverage on its existing network of partners should the need arise to source energy from eligible renewable energy sources.

It is also unlikely for the power generation assets of the Company to be stranded because a substantial portion of its existing capacity are contracted to qualified offtakers on a long-term basis. Moreover, in view of the ongoing market liberalization of the local power industry, the Company has open access to potential offtakers whether from the captured or contestable markets as long as it remains competitive in its pricing and quality of service.

Equally important is the Company’s constant vigilance and awareness of the carbon footprint and potential environmental hazards associated with fossil fuel-fired power plants and how this may influence certain offtakers willingness to purchase power from such facilities. As such, SMC Global Power closely supervises and controls the operations of its power generation assets to ensure that emissions are well below international and local environmental compliance standards. For example, the Limay and Davao Greenfield Power Plants of the Company uses the circulating fluidized bed technology in addition to other facilities such as fine coal grinders, limestone injections, and electrostatic precipitators, to transform coal into a fuel source that is relatively low in pollutant emissions.

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 nine months ended September 30, 2018. 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. For example, SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. The case is pending resolution by the Supreme Court.

The ERC also issued an order dated March 3, 2014 which voided the WESM prices for the November and December 2013 billing months and imposed prices to be recalculated by PEMC. The Court of Appeals in its Decision dated November 7, 2017 declared the ERC Order dated March 3, 2014 null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013. Upon finality, a claim for refund may be made with PEMC.

The ERC in the exercise of its regulatory powers may restrict the type of tariff structure that distribution utilities can adopt for their Power Supply Agreements ("**PSAs**"). For example, under the current draft of the implementing rules of the CSP entitled "Rules Governing the Procurement, Execution, and Evaluation of Power Supply Agreements Entered Into by Distribution Utilities For the Supply of Electricity to their Captive Market", generation companies are required to tender fixed bid price (which shall include fuel cost) for the procurement of PSAs with Distribution Utilities. Such requirement may limit the ability of generation companies to enter into tariff structures which have adjustment mechanisms to pass-on cost fluctuations such as inflation. Accordingly, such generation companies, including the Company, may be constrained to absorb such costs and other losses not recovered under the set tariff.

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

Trading on the WESM

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

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

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

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

Possible conflicts of interest

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

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

Dependence on the support of San Miguel Corporation

SMC Global Power relies upon San Miguel Corporation for certain shared services such as, but not limited to, human resources, corporate affairs, legal, finance and treasury functions. There is no guarantee that San Miguel Corporation will continue to provide these services or obtain its power requirements from SMC Global Power in the future. Should San Miguel Corporation cease to provide these services, and if SMC Global Power is unable to secure alternative sources from such services or enter into other PSAs, the Company's business, financial condition and results of operations could be adversely affected.

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 the "Certain Legal Proceedings" section of this Prospectus. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and delays in the operations of the SMC Global Power. The Company may also have disagreements with regulatory bodies in the ordinary course of its business, which may subject it to administrative proceedings and unfavorable decisions that will result in penalties and/or delay the development of its greenfield projects and its current operations. In such cases, the business, financial condition, results of operations and cash flows of the SMC Global Power could be materially and adversely affected.

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

RISKS RELATING TO THE PHILIPPINES

Political instability

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

Most recently, the Supreme Court of the Philippines ousted Chief Justice Maria Lourdes Sereno through a *quo warranto* proceeding on the basis of an invalid appointment. The removal of Chief Justice Sereno became controversial because it was not coursed through the process of impeachment.

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

Acts of terrorism, clashes with separatist groups and violent crimes

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

On May 23, 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22, 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. On October 17, 2017, President Duterte declared the liberation of Marawi following the death of Maute group leaders Omar Maute and Isnilon Hapilon. The clashes resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents. On December 13, 2017, both Houses of Congress again granted President Duterte's request to extend Martial law in Mindanao until December 31, 2018. For the third time on December 17, 2018, Martial Law was extended by both Houses of Congress until December 31, 2019. Some sectors however are wary of the prolonged extension of Martial Law, citing its negative impact on business, tourism, the country's image (as this relates to the current administration's ability to quickly restore peace and order in Marawi), and investor confidence. In January 2019, members of the House of Representatives' "Magnificent Seven" and Makabayan blocs, human rights lawyers led by Christian Monsod, and Mindanao residents represented by the Free Legal Assistance Group filed separate petitions with the Supreme Court questioning the third extension of Martial Law in Mindanao. On February 19, 2019, the Supreme Court en banc voted to uphold the constitutionality of the third extension of martial law in Mindanao and to dismiss the petitions.

Territorial and other disputes with neighboring states

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

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

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

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

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

Natural catastrophes

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

Management of risks related to the Philippines

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

RISKS RELATING TO THE BONDS

Suitability of Investment

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

Liquidity

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

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

The Bonds entail credit risk from Issuer

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

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

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

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

Reinvestment

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

Pricing

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

Retention of Ratings

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

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

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

Issuer, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds.

Risk of pre-payment and cancellation of certain loan obligations

The ability to make scheduled payments or interest payments on the Bonds may be affected by the Company's future performance and ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory, and other factors such as the terms and conditions of certain loan obligations of SMC Global Power. The terms and conditions of some of these loans may allow the lenders to require certain mandatory pre-payments from the Issuer under circumstances as such lenders and the Company agreed upon. As of September 30, 2018, the Company outstanding loans amounting to ₱117,864,600,000 are covered by some form of pre-payment stipulation.

The Company employs a system of financial prudence and good corporate governance to manage the risks relating to its debt and equity financing and continuously monitors its compliance with the terms and conditions of the Company's loan obligations.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

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

Use of Proceeds

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

Determination of Offer Price

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

Plan of Distribution

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

Description of the Bonds

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

Description of the Business

COMPANY OVERVIEW

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, with a combined 4,197 MW of combined capacity as of September 30, 2018 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% market share of the National Grid, a 25% market share of the Luzon Grid and a 9% market share of the Mindanao Grid, in each case as of September 30, 2018.

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

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

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

In order to consolidate its power generation businesses, in 2010, San Miguel Corporation transferred its equity interest in SMEC, SPDC and SPPC to SMC Global Power, its wholly-owned subsidiary.

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

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

SMC Global Power also initiated two greenfield power projects in 2013, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant and the 4 x 150 MW Limay Greenfield Power Plant. Ground breaking for the Davao Greenfield Power Plant took place in July 2013, while ground breaking for Limay Greenfield Power Plant was held in October 2013. Davao Greenfield Power Plant is owned by SMCPC, while the Limay Greenfield Power Plant is owned by SCPC, both wholly-owned subsidiaries of SMC Global Power. Both Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively. Units 1, 2, and 3 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, and March 2018, respectively.

The second 2 x 150 MW of the Limay Greenfield Power Plant was formerly owned by LPPC, a wholly-owned subsidiary of SMC Global Power, but this was later transferred to SCPC in June 2017.

In September 2013, SMC Global Power, through SPI, acquired the 140 MW Limay Cogeneration Plant located at the Petron Bataan Refinery, Barangay Alangan, Limay, Bataan from Petron Corporation. On December 23, 2016, the Limay Co-Gen Power Plant was purchased back by Petron Corporation from SPI.

In November 2014, SMC Global Power, through its subsidiary PVEI, acquired 60% stake in AHC, the owner and operator of the 218 MW AHEPP located in San Lorenzo, Norzagaray, Bulacan.

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

On March 20, 2018, SMC Global Power acquired 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy. MPPCL owns, operates and maintains the MPPCL Assets, while SMCGP Philippines Energy plans to construct the Kabankalan BESS in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of SMC Global Power. MPPCL also owns 40% of Alpha Water.

As part of the sale, SMC Global Power also acquired SMCGP Transpower and SPHI. SMCGP Transpower was a subsidiary of The AES Corporation which provides for the corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

On July 13, 2018, PEGC, a wholly-owned subsidiary of SMC Global Power, acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water, representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the MPPCL Assets in Zambales Province is located.

On September 19, 2018, PEGC and Oceantech Power Generation Corporation purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

SMC Global Power, through SMEC, SPDC, SPPC, SMELC, AHC, SPI, SMCPC, and MPPCL 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 most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

During the years ended December 31, 2015, 2016 and 2017 and the nine months ended September 30, 2017 and 2018, respectively, SMC Global Power, through its subsidiaries, sold 14,714 GWh, 15,758 GWh, 15,707 GWh, 11,634 GWh, and 15,112 GWh of power pursuant to offtake agreements and 1,844 GWh, 1,588 GWh, 1,520 GWh, 1,184 GWh, and 2,559 GWh of power through the WESM, respectively. During the years ended December 31, 2015, 2016, 2017 and the nine months ended September 30, 2017 and 2018, SMC Global Power, through its subsidiaries, purchased 690 GWh, 767 GWh, 684 GWh, 491 GWh, and 889 GWh of power from the WESM, respectively.

For the year ended December 31, 2017, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱82,791 million, ₱8,217 million and ₱7,654 million, respectively, for the nine months ended September 30, 2018, the total consolidated revenue, net income, and

EBITDA of SMC Global Power were ₱89,111 million, ₱4,366 million, and ₱8,580 million, respectively, while as of December 31, 2017, and September 30, 2018, SMC Global Power had total consolidated assets of ₱350,173 million and ₱501,379 million, respectively.

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

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

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

SMC Global Power is a wholly-owned subsidiary of San Miguel Corporation and is the holding company for the power businesses of San Miguel Corporation. San Miguel Corporation is a diversified conglomerate founded in 1890 that is listed on the PSE, with market-leading businesses in the food, beverages, packaging, fuel and oil, infrastructure, property, and investments in car distributorship and banking. 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.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

Competitive Strengths

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 with a combined installed capacity of 4,197 MW as of September 30, 2018 and has the highest equity ownership in its assets portfolio and the biggest capacity in terms of baseload plants. The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC, SMCPC and MPPCL, the owners of the Limay, Davao Greenfield Power Plants, and the Masinloc Power Plant, respectively. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2018.

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.

SMC Global Power's experience in acting as IPPA and its history of power plant ownership and operation, has enabled it to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power embarked on its own greenfield power projects and pursued strategic acquisitions. It believes that 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, including NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, cost competitive baseload plants and renewable energy power plants.

To capitalize on changes in the Philippine regulatory structure, SMC Global Power, through SMELC, SCPC and MPPCL, holds a RES license from the ERC allowing it to enter into offtake agreements with Contestable Customers. SMC Global Power, through SMEC and its subsidiaries, also maintains its coal concession assets which, depending on prevailing global coal prices and the related logistical costs, may be tapped to serve as a back-up fuel source for its greenfield coal power plants.

SMC Global Power is expected to expand its market leadership with its ongoing and future expansion that is anchored on cost competitive baseload plants. In addition, SMC Global Power is actively pursuing battery storage technology investments and initiatives in the Philippines that will help regulate the transmission grid over a Philippine archipelago, which is inherently prone to voltage and frequency instability.

Well-positioned to capture future demand growth. Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya may result in a reduction of energy generated by natural gas power plants by 2024. 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 expected power supply shortage. The latter is exacerbated by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply such as the hydropower plants particularly in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in battery technology, hydro and solar projects.

SMC Global Power's expansion projects under construction include Unit 4 (150 MW) of the Limay Greenfield Power Plant and Unit 3 (335 MW) of the Masinloc Power Plant. In addition, the Company is in the process of finalizing the EPC contract for the Kabankalan BESS (2 x 20 MW) with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 49% of the equity interests in MPGC, which plans to develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan. The Company is considering the further expansion of its power portfolio through the development and construction of a new power plant located in Pagbilao, Quezon with a planned installed capacity of 600 MW.

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 increase in electricity demand.

Stable and predictable cash flows. SMC Global Power, through its subsidiaries, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. A substantial portion of the combined installed capacity of SMC Global Power is covered by bilateral contracts that cover the term of the IPPA Agreements, where applicable. Revenue from bilateral contracts with offtakers contributed 92%, 95%, 95%, 94% and 91% of total revenue for the years ended December 31, 2015, 2016 and 2017 and for the nine months ended September 30, 2017 and 2018, respectively. For the nine months ended September 30, 2018, approximately 47% and 53% of the Company's consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on the publicly available disclosures of Meralco, the largest distribution utility in the Philippines, SMC Global Power believes that it is Meralco's largest power supplier as of September 2018 supplying approximately 28% of Meralco's power purchases. In addition, the Company is a dominant player in the RES markets where is operates, based on data obtained from the ERC as of September 2018.

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. Majority of 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 has a portfolio that includes some of the newest and largest power plants in the Philippines. The baseload and peaking plants with diversified fuel sources of the Company allow it to manage costs and offer more competitive baseload power rates.

The existing power portfolio of SMC Global Power consists of (i) IPPAs comprising of Sual Power Plant, through SMEC, which represents 24% of the capacity of SMC Global Power, San Roque Power Plant, through SPDC, which represents 8% of the capacity of SMC Global Power, and Ilijan Power Plant, through SPPC, which represents 29% of the capacity of SMC Global Power, (ii) the AHEPP, through AHC, which represents 5% of the capacity of SMC Global Power, and (iii) power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 11% of the capacity of SMC Global Power, and Davao Greenfield Power Plant, which represents 7% of the capacity of SMC Global Power, and the Masinloc Power Plant (with Masinloc BESS), which represents another 16% of the capacity of SMC Global Power as of September 30, 2018.

Power generated by the Sual Power Plant, Ilijan Power Plant, Limay Greenfield Power, Davao Greenfield Power Plant, and Masinloc Power Plant are 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. On the other hand, the entire capacity of the 10 MW Masinloc BESS is contracted to NGCP as ancillary services.

As of September 30, 2018, SMC Global Power's coal-fired plants accounted for approximately 58% of its capacity. This is guided by the existing energy policy of the Government to provide relatively inexpensive and reliable power to residential and commercial customers without the need for subsidies or escalating tariffs. Feed-in-tariffs for renewable energy projects have been phased out by the Government, which makes it more challenging to embark on large-scale renewable energy projects.

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.

A member of the San Miguel Corporation group of companies. The principal shareholder of SMC Global Power, San Miguel Corporation, is one of the largest and most diversified conglomerates in the Philippines in terms of revenues and assets and is listed on the PSE. In addition to its power business, San Miguel Corporation has market-leading businesses in vital industries that support the economic development of the country, including food and beverages, packaging, fuel and oil, infrastructure, property, and investments in car distributorship and banking.

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

Experienced and highly competent management team. The senior management of SMC Global Power has extensive experience in the Philippine power industry and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, National Transmission Corporation ("**TransCo**"), NGCP, PEMC and ERC, as well as people from other Government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have an average of 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.

Strong commitment to stringent environmental policies and pollution controls. SMC Global Power closely supervises, controls and process improvements in the power plants it owns and operates to ensure that regulated emission are within and below applicable environmental compliance standards. For example, the Company uses the circulating fluidized bed ("**CFB**") technology in its Limay and Davao Greenfield Power Plants. CFB technology is a technology employed to transform coal into a fuel source that is relatively low in pollutant emissions. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as burning coal at low temperature and pressure, 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. In addition, CFB plants have other elements that reduce emissions, such as fine coal grinders, limestone injections, and electrostatic precipitators to capture dust particles that escape the boiler. See "Safety, Health and Environmental Regulation and Initiatives."

Moreover, SMC Global Power has dedicated teams who monitor environmental compliance with international standards. For example, the Sual Power Plant has an Environmental and Management System Certificate (ISO 14001), Occupational Standard on Health Safety Certificate (ISO 18001) and Quality Management System Certificate (ISO 9001). The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while Masinloc Power Plant and Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate (ISO 18001) in 2014.

Strategies

Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins. SMC Global Power and its subsidiaries (a) proactively manages its sales in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (ii) engaging in power trading through the WESM, and (b) optimizes the operations of its power plant portfolio through maximizing plant utilization, improving individual account and plant margins and minimizing the impact of supply interruptions This approach provides SMC Global Power with the certainty and predictability of sales from its contracted capacity while being able to realize trading opportunities from the WESM to enhance its margins. The objective of SMC Global Power is to supply power based on the least cost and to sell available excess power through the WESM at favorable prices.

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 its 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, and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

Grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments. 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. The Company believes that coal remains the most reliable and cost-efficient fuel source for greenfield power projects and is using and will continue to use clean coal technology for its planned and existing greenfield power plants.

In addition to its strategy to grow its power portfolio, the Company is focused on further investments in battery technology to add to the existing 10 MW Masinloc BESS and the planned 2 x 20 MW Kabankalan BESS. SMC Global Power also actively seeks to identify and pursue renewable energy investments in hydro-electric and solar projects, subject to the outcome of viability and feasibility analyses. This is in line with the Company's objective to operate in an environmentally-responsible manner, while taking into consideration energy security and affordability to its consumers.

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 areas with the closest proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. See "*—Power Generation Capacity—Greenfield Power Plants*." SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power is confident from its experience in building the Limay and Davao Greenfield Power Plants that it will be able to build new cost competitive plants.

Vertically integrate complementary businesses in order to diversify its energy portfolio. SMC Global Power continues to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained RES licenses, through SMELC, SCPC, and MPPCL, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES license allows SMC Global Power 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.

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

Continue to pursue and develop measures to reduce gas emissions and operate power plants within and below applicable environmental compliance standards. SMC Global Power intends to continuously supervise, control and improve processes in the power plants it owns and operates to ensure that regulated emission from operations are within and below applicable environmental compliance standards. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards.

Leverage operational synergies with San Miguel Corporation group of Companies. SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with the other subsidiaries and affiliates of San Miguel Corporation for the sale and supply of power. In addition, SMC Global Power, through its subsidiaries, Daguma Agro, Bonanza Energy and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

IPPA FRAMEWORK

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

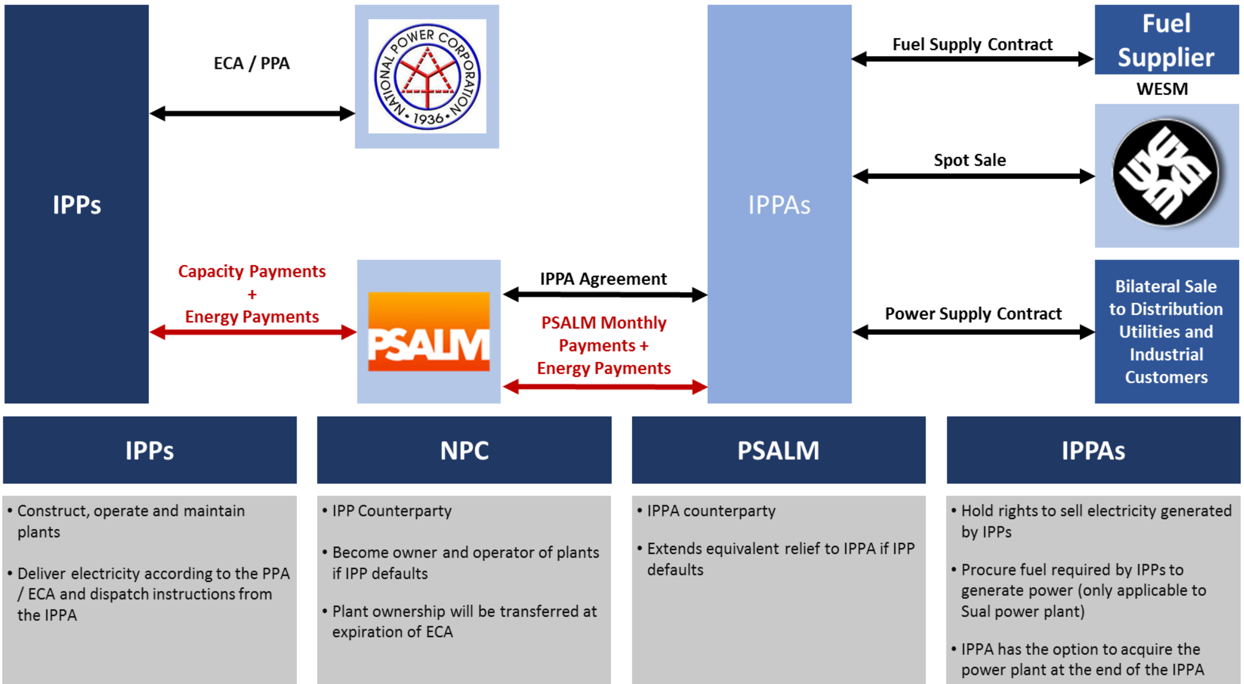
Under IPPA Agreements, the IPPAs have the right to sell the electricity generated by such IPP in the WESM and also by entering into PSCs with specific customers and will, in general, manage procurement of the fuel supply to the associated IPP. The IPPA has to pay PSALM a fixed monthly payment and a variable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

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

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

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

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



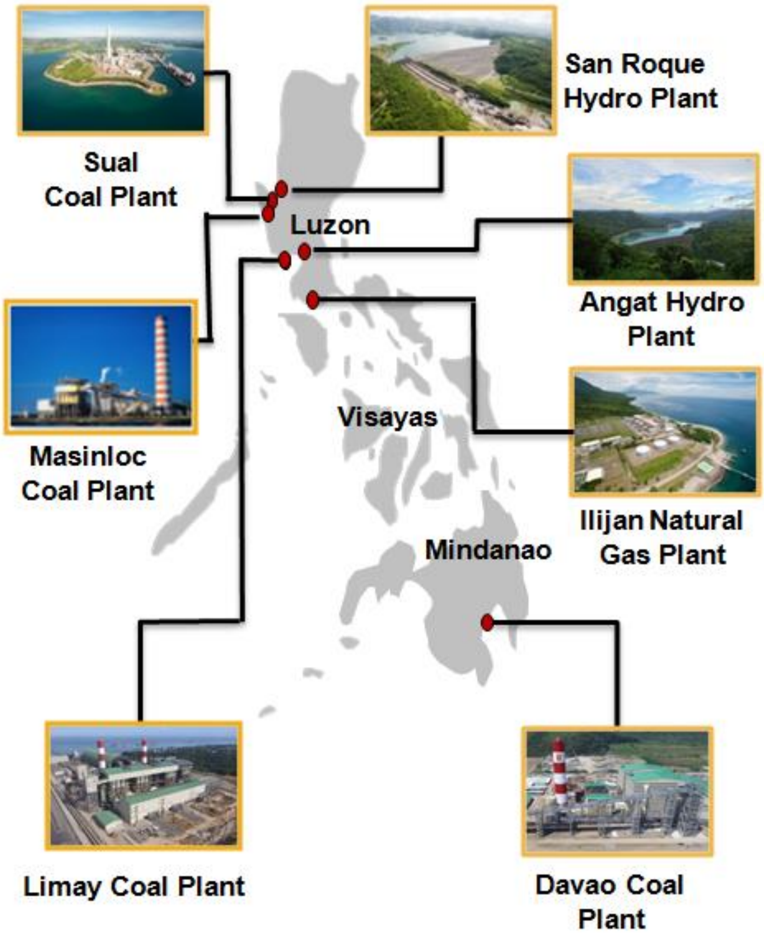
IPPA Asset Transfer Process

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

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

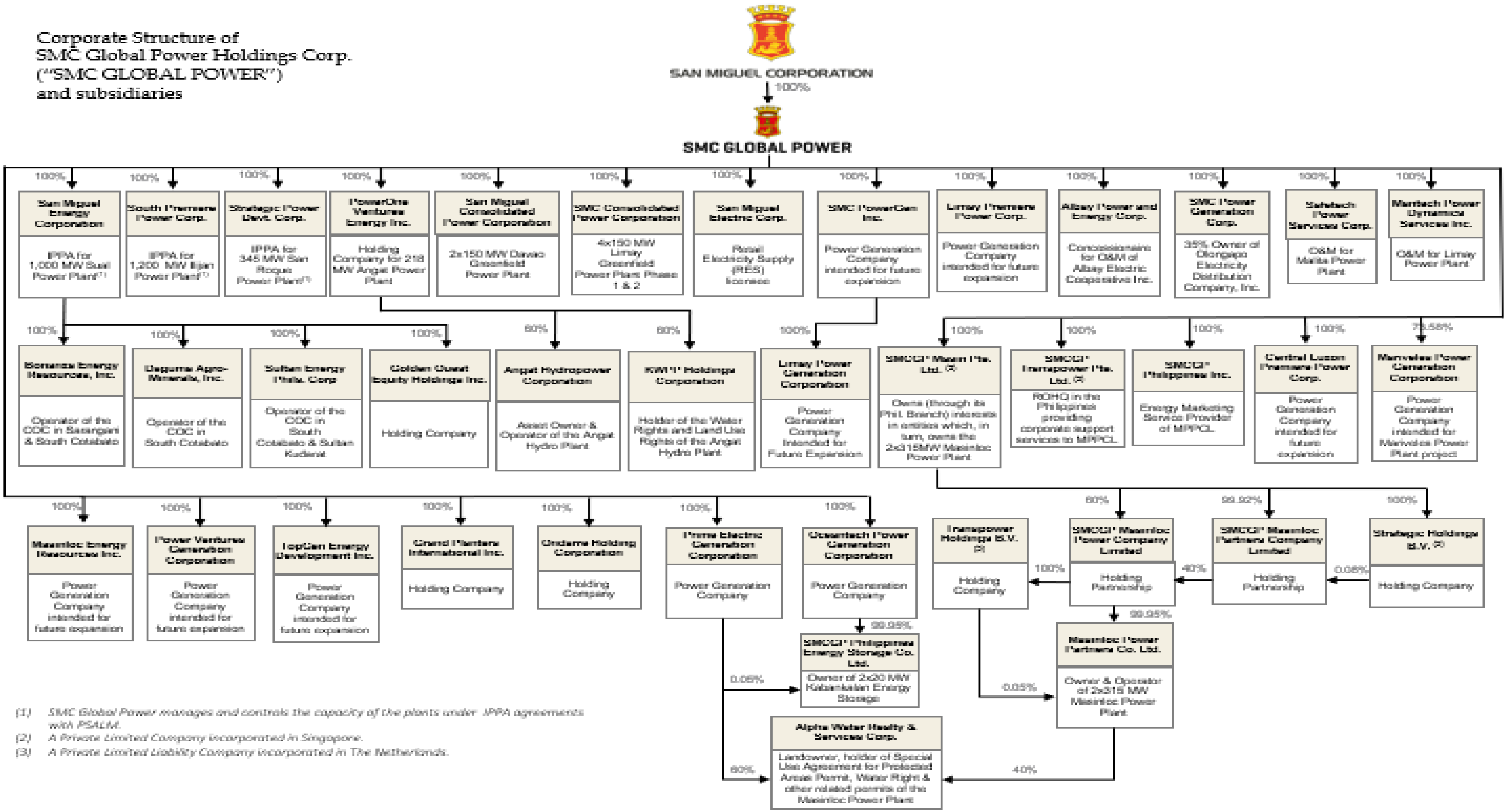
SMC GLOBAL POWER PORTFOLIO

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



CORPORATE STRUCTURE

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



(1) SMC Global Power manages and controls the capacity of the plants under IPPA agreements with PSALM.
(2) A Private Limited Company incorporated in Singapore.
(3) A Private Limited Liability Company incorporated in The Netherlands.

CORPORATE HISTORY AND MILESTONES

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

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

January 2008	SMC Global Power is incorporated under the name Global 5000 Investment Inc. (renamed SMC Global Power Holdings Corp. in October 2010).
January 2009	SMC Global Power acquires a 6.13% equity interest in Meralco, which was eventually sold in December 2013.
November 2009	A San Miguel Corporation subsidiary, SMEC, becomes the IPPA for the Sual Power Plant. SMC Global Power acquires a 60% equity interest in SMEC.
January 2010	A San Miguel Corporation subsidiary, SPDC, becomes the IPPA for the San Roque Power Plant. A San Miguel Corporation subsidiary, Panasia Energy, acquires the Limay Combined Cycle Plant. SMEC acquires a 100% equity interest in Bonanza Energy and Daguma Agro, the companies having coal mining rights over approximately 10,000 hectares in Lake Sebu, South Cotabato and Tuanadatu, Maitum, Saranggani Province in Mindanao.
March 2010	SMC Global Power acquires from San Miguel Corporation a 60% equity interest in SPDC, the IPPA for the San Roque Power Plant.
May 2010	SMEC acquires a 100% equity interest in Sultan Energy, with coal mining rights over approximately 7,000 hectares in Lake Sebu, South Cotabato and Bagumbayan, Sultan Kudarat in Mindanao.
June 2010	A San Miguel Corporation subsidiary, SPPC becomes the IPPA for the Ilijan Power Plant.
September 2010	SMC Global Power becomes a wholly-owned subsidiary of San Miguel Corporation, and acquired from San Miguel Corporation: • a 100% equity interest in SPPC, the company that is the IPPA for the Ilijan Power Plant; • a 100% equity interest in Panasia Energy, which owns the Limay Combined Cycle Plant; and • the remaining 40% equity interests in SMEC and SPDC.

August 2011	SMC Global Power sells its 100% equity interest in Panasia Energy, which owns the Limay Combined Cycle Plant, to a third party, Millennium Holdings, Inc. San Miguel Corporation transfers to SMC Global Power its 100% equity interest in SMELC. SMELC holds a RES license from the ERC.
January 2013	Execution of EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.
July 2013	Groundbreaking of the 2 x 150 MW Davao Greenfield Power Plant.
September 2013	SMC Global Power is awarded as the winning concessionaire for the rehabilitation, operations and maintenance of ALECO. SMC Global Power, through SPI (a wholly owned subsidiary), acquires the 140 MW Limay Cogeneration Plant from Petron Corporation. SMC Global Power agreed to sell its 6.13% interest in Meralco. The sale was completed in March 2014.
October 2013	Groundbreaking of the 4 x 150 MW Limay Greenfield Power Plant.
February 2014	Start of APEC's concession of ALECO's distribution franchise.
November 2014	SMC Global Power acquired 60% of AHC, the owner and operator of the AHEPP.
July 2015	Groundbreaking of the AHEPP rehabilitation.
August 2016	SCPC was granted a RES license by the ERC.
December 2016	SMC Global Power, through SPI, sold the 140 MW Limay Cogeneration Plant back to Petron Corporation.
May 2017	Commercial Operations of Unit 1 of the Limay Greenfield Power Plant.
July 2017	Commercial Operations of Unit 1 of the Davao Greenfield Power Plant.
September 2017	Commercial Operations of Unit 2 of the Limay Greenfield Power Plant.
February 2018	Commercial Operations of Unit 2 of the Davao Greenfield Power Plant.
March 2018	Commercial Operations of Unit 3 of the Limay Greenfield Power Plant. Acquisition of the Masinloc Power Plant from AES and EGCO.

April 2018.	Completed Masinloc Power Plant Unit 2 retrofit and performance tests.
July 2018.	Acquired 60% equity interest in Alpha Water from ALCO Steam Energy Corporation.
August 2018.	Angat Dam & Dykes Strengthening Project completed.

IPPA POWER PLANTS

The table below summarizes information regarding the power plants whose generation capacity is managed and sold by SMC Global Power, through its subsidiaries, 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.[2]	Korea Electric Power, Corporation, Mitsubishi Corporation, TeaM Energy[3]
Installed Capacity (MW)	2 x 647	3 x 137	2 x 635.5
Net Contracted Capacity (MW)	1,000[4]	345[5]	1,200
Fuel	Coal	Hydro-electric	Natural Gas
Fuel Supply	PT Trubaindo Coal Mining, PT Kaltim Prima Coal, Vitol	N/A	Camago-Malampaya Gas Fields (through NPC/PSALM)
Revenue Mix.	Over 95% bilateral contracts[6]	33% WESM; 77% replacement power contracts	Over 90% bilateral contract[7]

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Net Capacity Factor (%)			
December 31, 2015	69%	35%	71%
December 31, 2016	72%	26%	79%
December 31, 2017	61%	23%	77%
September 30, 2018.	73%	36%	73%

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

2 Through San Roque Power Corporation.

3 Through KEPCO Ilijan Corporation ("KEILCO").

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 PSAs up to 2019, which can be extended up to the end of the IPPA.

	Plant Name		
	Sual	**San Roque**	**Ilijan**
Availability factor (%)			
December 31, 2015	82%	98%	85%
December 31, 2016	84%	99%	95%
December 31, 2017	71%	97%	94%
September 30, 2018.	89%	96%	91%
Offtakers	Meralco, ECs, DUs, DCCs, WESM[8]	Intercompany, WESM	Meralco, WESM
IPPA Expiry / Asset Transfer Date	October 2024	April 2028	June 2022

POWER GENERATION FACILITIES

SUAL POWER PLANT

Background

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

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

Sual IPPA

Power Plant Capacity and Fuel Supply

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement. TeaM (Philippines) Energy Corporation, an affiliate of TeaM Energy, is allowed to sell the remaining balance of 200 MW. Accordingly, 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

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

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. 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

The capacity of Unit 1 of the Sual Power Plant is fully contracted to (i) Meralco (DU) under a long-term offtake agreement expiring in 2019, subject to extension up to 2024, and (ii) Meralco (RES) under a long-term offtake agreement expiring in 2024, subject to extension upon mutual agreement by the parties. Meanwhile, the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives directly connected customers and third-party RES under existing PSCs.

For energy-based contracts entered into by SMEC directly with offtakers on a bilateral basis, pricing is based on a reasonable return over the cost structure of SMEC.

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,			Nine months ended September 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Actual Energy Generated (GWh)	6,066	6,341	5,333	4,474	4,819
Electricity sold (GWh):	7,617	8,015	8,388	6,484	6,505
of which: bilateral offtake agreements	7,048	7,480	7,850	6,024	5,942
of which: WESM sales	569	535	538	460	563
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements .	4,439	4,400	4,940	4,915	5,143
for electricity sold on WESM	3,609	2,410	2,213	2,224	2,734
Net Capacity Factor (%)	69	72	61	68	73
Availability Factor (%)	82	84	71	77	89
Reliability Factor (%)	99	97	74	77	98
Average Net Dependable Capacity (MW)	915	955	830	831	999
Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**") (Lower heating value or "**LHV**")	2,427	2,419	2,448	2,436	2,467

Fuel Supply

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

	For the year ended December 31,			For the nine months ended September 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Metric tons (thousands)	2,381.8	2,459.0	2,086.1	1,745.2	1,924.2
Average calorific value (kcal/kg)	6,131.0	6,233.2	6,200.9	6,195.7	6,1865
(in millions ₱)	7,811.7	7,799.3	10,562.3	8,480.6	11,455.9
Average price per metric ton (₱)	3,279.7	3,171.7	5,063.1	4,859.5	5,950.5

SMEC has an existing coal supply agreement with KPC which will ensure a steady supply of coal for SMEC. For 2018, KPC supplied 11 panamax shipments which is expected to increase to 12 panamax shipments per year from 2019 to 2021. Each shipment shall comprise 65,000 metric tons +/- 10%. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

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

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

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

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

	Year ended December 31,			Nine months ended September 30,	
	2015	2016	2017	2017	2018
Unit 1	27 days	74 days	27 days	0 day	27 days
Unit 2	60 days	20 days	None	0 day	25 days

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

In 2017, Unit 1 underwent 27 days of planned maintenance outage.

As of September 30, 2018, Unit 1 was shut down for 25 days for its 60-day annual maintenance outage. Further, Unit 2 was shut down for 22 days for the installation of a replacement main transformer.

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

	Year ended December 31,			Nine months ended September 30,	
	2015	2016	2017	2017	2018
Unit 1	7 days	9 days	33 days	20 days	0 day
Unit 2	34 days	14 days	158 days	108 days	8 days

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

In 2017, 20 days forced outages in Unit 1 were mostly due to condenser tube leaks and boiler water wall tube leaks while 108 days forced outages in Unit 2 during the same year were mostly due to condenser tube leaks and Generator Transformer internal flashover at Phase B starting June 14, 2017.

In 2018, Unit 2 was shut down for a total of 8 days due to boiler tube leak repair, power tripping attributable to the activation of generator differential protection and reclaiming problem caused by collapsed coal pile.

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 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 (the "**Consortium**") 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, irrigates approximately 34,450 hectares of agricultural land, stores water that would otherwise flood the Pangasinan plains, and improves water quality of the Agno River which, otherwise, would pollute the downstream rivers.

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

San Roque IPPA

Power Plant Capacity

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

While the contracted capacity of SPDC is 345 MW, it may generate up to 435 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.

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 NGCP to wheel power from the delivery point.

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 2017 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 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 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.

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,			Nine months ended September 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Actual Energy Generated (GWh)	1,066	798	692	540	820
Electricity sold (GWh):	1,589	1,435	1,026	802	1,062
of which: bilateral offtake agreements	863	971	827	640	653
of which: WESM sales	726	464	199	162	409
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreement	5,096	5,464	5,844	6,964	6,268
for electricity sold on WESM	3,965	3,251	4,395	4,584	2,982
Net Capacity Factor (%)	35	26	23	24	36
Availability Factor (%)	98	99	97	96	96
Reliability Factor (%)	100	100	100	100	100
Average Net Dependable Capacity (MW)	415	433	374	354	331

Water Rights

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

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.

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

Operations and Maintenance

SRPC was created by the Consortium to be 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,			Nine months ended September 30,	
2015	**2016**	**2017**	**2017**	**2018**
6 days (May 26 to June 1)	4 days (May 26 to May 30)	11 days (May 27 to June 6)	11 days (May 27 to June 6)	10 days (May 26 to June 4)

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

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

In 2018, the San Roque Power Plant was shut down for 10 days mainly due to switchyard maintenance activities in accordance with Grid Operating and Management Program ("**GOMP**").

Power Transmission

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

ILIJAN POWER PLANT

Background

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEILCO pursuant to a 20-year ECA with NPC ("**Ilijan ECA**") under a BOT scheme that expires on June 4, 2022. NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.
The Ilijan Power Plant can also run on diesel oil stored on site. On April 16, 2010, San Miguel Corporation successfully bid to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, San Miguel Corporation and SPPC, entered into an assignment agreement with assumption of obligations whereby San Miguel Corporation assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with an IPPA Agreement with PSALM (the "**Ilijan IPPA Agreement**").

Ilijan IPPA

Power Plant Capacity and Fuel Supply

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

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

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

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.

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 subject to certain conditions under the Ilijan IPPA Agreement but 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 PSA up to December 2019, which can be extended up to the end of the IPPA Agreement upon mutual agreement between the parties.

In the year ended December 31, 2015, 2016 and 2017, and for the nine months ended September 30, 2017 and 2018, 93%, 93%, 92%, 91% and 86% 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, 2015, 2016 and 2017, and for the nine months ended September 30, 2017 and 2018, 7%, 7%, 8%, 9% and 14% 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,			Nine months ended September 30,	
	2015	2016	2017	2017	2018
Actual Energy Generated (GWh)	7,434	8,363	8,143	6,059	5,785
Electricity sold (GWh):	7,832	8,630	8,308	6,139	5,884
of which: bilateral offtake agreements	7,284	8,041	7,606	5,604	5,089
of which: WESM sales	549	589	702	535	795
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake agreements	4,145	3,657	4,154	4,346	4,756
for electricity sold on WESM	2,339	2,301	3,070	3,059	3,495
Net Capacity Factor (%)	71	79	77	77	73
Availability Factor (%)	85	95	94	91	91
Reliability Factor (%)	97	99	99	100	100
Average Net Dependable Capacity (MW)	1,025	1,140	1,122	1,113	1,093
Net Heat Rate (Kilo-Joule/KWh)	6,463	6,897	6,870	6,877	6,898

Fuel Supply

Under Ilijan IPPA Agreement, 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. Occidental Philippines, Inc. and NPC, 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, governing the output of 1,200 MW guaranteed contracted capacity, baseload operation, and 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,			Nine months ended September 30,	
	2015	2016	2017	2017	2018
Block 1	50 days	6 days	18 days	18 days	26 days
Block 2	32 days	26 days	9 days	8 days	21 days

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

In 2017, Blocks 1 and 2 was shut down for 18 days and 9 days, respectively, due to Malampaya gas restriction from January 28, 2017 to February 16, 2017.

In 2018, Block 1 was shut down for a total of 26 days due mainly to turbine inspection and repair of HRSG casing leak while Block 2 underwent combustor inspection for 16 days and an additional day due to HRSG casing leak.

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

	Year ended December 31,			Nine months ended September 30,	
	2015	2016	2017	2017	2018
Block 1	16 days	0 day	2 days	4 days	0 day
Block 2	4 days	5 days	10 days	5 days	0 day

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

In 2017, there were no significant outages occurred for Blocks 1 while Block 2 experienced a 10-day forced outage due to debris filter inspection.

In 2018, there were no significant outages that occurred for both Blocks 1 and 2.

Power Transmission

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

ANGAT HYDROELECTRIC POWER PLANT

Background

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

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

2018, AHC completed the rehabilitation and turnover of the Angat Dam and Dykes in accordance with the Operations and Maintenance Agreement with PSALM and NPC.

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 discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir are used to supply 97% of the residential drinking water of Metro Manila; and

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

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

- MWSS, for domestic water supply to Metro Manila;

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

- NIA, for irrigation diversion requirements; and

- AHC (through a lease contract with KWPP), for power generation.

Power Offtakers

AHC sells majority of its generated capacity to the WESM at the prevalent spot price. The Main Units are being operated as peaking units. The strategy for the Main Units is to allocate daily water releases during peak hours. Auxiliary Units are being operated as baseload 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 exploring options to contract the capacity of its Auxiliary Units.

Operations Review

The table below is a summary of operating statistics of the AHEPP during the periods indicated.

	For the year ended December 31,			**For the nine months ended September 30,**	
	2015	**2016**	**2017**	**2017**	**2018**
Net Capacity Factor (%)	14	19	27	24	24
Availability Factor (%)	80	86	87	86	76
Reliability Factor (%)	100	94	95	93	98
Average Net Dependable Capacity (MW)	171	176	199	196	164

Operations and Maintenance

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

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

LIMAY GREENFIELD POWER PLANT

Background

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW circulating fluidized bed coal-fired power plant located in Limay, Bataan, that commenced constructions in October 2013. Units 1, 2 and 3 of the Limay Greenfield Power Plant achieved commercial operations in May 2017, September 2017 and March 2018, respectively. Unit 4 is expected to commence operations in second quarter of 2019. The engineering, procurement, and construction contractors of the Limay Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. In June 2017, SCPC acquired all of the rights and obligations on the completion of Units 3 and 4 of the Limay Greenfield Power Plant from another wholly-owned subsidiary, Limay Premiere Power Corp. Mantech Power Dynamics Services Inc., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

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

Fuel Supply

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

DAVAO GREENFIELD POWER PLANT

Background

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCPC, is a 2 x 150 MW circulating fluidized bed coal-fired power plant located in Malita, Davao Occidental, that commenced constructions in September 2013. Units 1 and 2 of the Davao Greenfield Power Plant achieved commercial operations in July 2017 and February 2018, respectively.

The EPC contractors of the Davao Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. Safetech Power Services Corp., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

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

Fuel Supply

SMCPC executed a long-term coal supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply 5 panamax shipments during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SMCPC has also executed spot coal supply contracts with other suppliers.

MASINLOC POWER PLANT AND MASINLOC BESS

Background

The Masinloc Power Plant comprises 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and a 335 MW (Unit 3) coal-fired power plant located in Masinloc, Zambales. Units 1 and 2 of the Masinloc Power Plant commenced commercial operations in June 1998 and December 1998, respectively, and were originally developed and owned by NPC. Unit 3 is envisaged as a brown-field/expansion project within the Masinloc Power Plant site, is 94% complete as of September 30, 2018 and is expected to commence commercial operations by 2nd Quarter of 2019. The EPC contractors of Unit 3 of the Masinloc Power Plant are Posco Engineering & Construction and Ventanas Philippine Construction.

The Masinloc BESS is a 10MW battery energy storage system located within the Masinloc Power Plant Complex. Masinloc BESS provides regulating reserve ancillary services to the Luzon Grid under an Ancillary Services Procurement Agreement with NGCP.

On March 20, 2018, SMC Global Power completed the acquisition of 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively. In addition to the Masinloc Power Plant, SMC Global Power, through SMCGP Masin, acquired the Masinloc BESS and the pre-developed Kabankalan BESS, located in Kabankalan, Negros Occidental. On September 19, 2018, PEGC and Oceantech Power Generation Corporation purchased the entire partnership interests in SMCGP Philippines Energy (owner of Kabankalan BESS) from subsidiaries of SMCGP Masin.

Power Offtakers

Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and contestable customers. The RES license of MPPCL was renewed on June 27, 2016, and is valid until August 1, 2021.

Operations Review

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

	For the year ended December 31,			For the nine months ended September 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Actual Energy Generated (GWh)	4,182	4,406	4,156	3,316	2,871
Electricity sold (GWh):	4,408	4,649	4,156	3,691	3,528
of which: bilateral offtake agreements	4,408	4,649	3,960	3,145	2,803
of which: WESM sales	-	-	196	546	725
Average realized electricity prices(₱/MWh):					
for electricity sold under bilateral offtake	3,830	3,845	5,111	4,880	5,667
for electricity sold on WESM	3,458	2,682	3,160	2,772	2,667
Net Capacity Factor (%)	80	85	80	81	70
Availability Factor (%)	90	92	91	90	82
Reliability Factor (%)	98	95	94	86	93
Average Net Dependable Capacity (MW)	590	590	590	590	614
Net Heat Rate (Kilo-Calorie/Kilowatt hour or "**Kcal/KWh**") (Lower heating value or "**LHV**")	2,605	2,518	2,530	2,515	2,381

Fuel Supply

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

	For the year ended December 31,			For the nine months ended September 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Metric tons (thousands)	1,758.2	1,862.4	1,807.6	1,370.5	1,228.6
Average calorific value (kcal/kg)	6,196.8	5,956.4	5,817.6	5,838.0	5,936.0
(in millions ₱)	5,835.4	6,125.0	8,928.8	6,315.6	6,919.4
Average price per metric ton (₱)	3,318.9	3,288.8	4,939.5	4,608.1	5,631.9

MPPCL has coal supply contracts with reputable international companies with durations ranging from 6 months to 3 years. All supplies are governed by a 5-year master agreement which terms apply for all contracts to be entered into between MPPCL and a coal supplier.

DISTRIBUTION AND RETAIL SERVICES

ALBAY POWER AND ENERGY CORP.

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. Under the concession agreement, there is no transfer of the franchise to operate the distribution system and the ownership of the distribution assets remains with ALECO. 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. In January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC, a wholly-owned subsidiary. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

Retail Electricity Supplier

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The three RES licenses issued to SMC Global Power, through SMELC, SCPC, and MPPCL, have a term of five years each and are valid until August 20, 2021, August 24, 2021, and August 1, 2021, respectively. The RES licenses allow the relevant subsidiary to enter into RSCs with contestable customers and expand its customer base. As of September 30, 2018, SMELC, SCPC, and MPPCL supply an equivalent of 423 MW to various contestable customers, which include facilities of San Miguel Corporation subsidiaries. Based on data obtained from the ERC and adjusting market share calculations to reflect the effective equity stake in the installed power generation capacity of the Company and its competitors in their respective power projects, the Company believes that it holds 18% market share in the contestable market.

Coal Investments

Pursuant to its strategy of integrating viable complementary businesses to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which depending on prevailing coal prices and the related logistical costs, may provide a significant additional source of coal fuel for its planned and existing greenfield power plants. Such assets are in the preparatory stage of its mining activities as of September 30, 2018.

The table below sets forth certain information regarding these assets.

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

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.

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	March 26, 2018	10 years
Sultan Energy	134	February 23, 2009[(2)]	10 years
Bonanza Energy	138	May 26, 2009[(2)]	10 years

[(1)] The term is renewable as may be agreed with and approved by the DOE.
[(2)] Ten (10) year extension is in process with the DOE.

SALES STRATEGY AND CUSTOMERS

SMC Global Power seeks to sell substantially all of the power generated by its portfolio of power plants to customers pursuant to offtakers whether in the form of distribution utilities, electric cooperatives or contestable customers. For the nine months ended September 30, 2018, approximately 47% and 53% of consolidated sales volume were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively.

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

The power generation capacities 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 baseload units, as the water requirement from the 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, 2015, 2016 and 2017 and the for the nine months ended September 30, 2017 and 2018, approximately 89%, 91%, 91%, 91%, and 86% respectively, of consolidated volume of power sold by the Company are to customers pursuant to offtake agreements. Sales to Meralco accounted for approximately 62%, 60%, 56%, 58% and 45% of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2015, 2016 and 2017 and for the nine months ended September 30, 2017 and 2018, respectively. Sales through the WESM accounted for approximately 11%, 9%, 9%, 9%, and 14% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2015, 2016 and 2017 and for the nine months ended September 30, 2017 and 2018, respectively. In 2017 and for the nine months ended September 30, 2018, 2% and 2% of consolidated sales volume of SMC Global Power was sold to customers of APEC, respectively.

Power Generation Capacity

Greenfield Power Plants

SMC Global Power continues to expand its power portfolio nationwide through greenfield power plants over the next few years, depending on market demand. Two coal-fired circulating fluidized bed ("**CFB**") power projects have been substantially completed.

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

January 2013	Executed engineering, procurement and construction contract ("**EPC Contract**") with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plant.
June 2013	Obtained Environmental Compliance Certificate ("**ECC**") and Pioneer Status from BOI (tax holiday).

July 2013	Obtained Customs Accreditation and Registration from Bureau of Customs, subject to annual renewal.
August 2013	Site hand over.
September 2013	Obtained Certificate of Authority to Import Capital Equipment, Spare Parts and Accessories from BOI.
2014 to November 2016	Construction and engineering of Units 1 and 2, and signing of offtake agreements.
October 2016	Provisional Authority to Operate was granted by the ERC in favor of Unit 1.
June 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 2.
July 2017.	Unit 1 commenced commercial operations.
February 2018	Unit 2 commenced commercial operations.

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

January 2013	Executed EPC Contract with Formosa Heavy Industries, for the construction of the Limay and Davao Greenfield Power Plants.
July 2013	Obtained Customs Accreditation and Registration from Bureau of Customs, subject to annual renewal.
September 2013	Obtained ECC and Pioneer Status from BOI (tax holiday).
January 2014	Site hand over.
2014 to 2017.	Construction and engineering of Units 1 and 2, and Signing of offtake agreements.
August 2016	RES License was granted by the ERC.
March 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 1.
May 2017	Unit 1 commenced commercial operations.
June 2017	SCPC acquired all the rights and obligations in the completion of Units 3 and 4 from Limay Premiere Power Corp.
August 2017	Provisional Authority to Operate was granted by the ERC in favor of Unit 2.
September 2017	Unit 2 commenced commercial operations.
March 2018	Unit 3 commenced commercial operations.

SMC Global Power plans to develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan and the development and construction of a new power plant located in Pagbilao, Quezon with a planned installed capacity of 600 MW.

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

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

Acquisition of Existing Power Generation Capacity

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

COMPETITION

The Group is one of the largest power companies in the Philippines. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, the Company believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% the Luzon Grid and 9% of the Mindanao Grid, in each case as of September 30, 2018. Its main competitors are First Gen Corporation and the Aboitiz Group, which 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. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

CUSTOMERS

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

Customers	Year ended December 31,						Nine months ended September 30,			
	2015		2016		2017		2017		2018	
	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Meralco	10,317	40,889	10,402	39,566	9,664	43,404	7,444	34,486	8,027	41,648
WESM	1,844	6,217	1,588	4,154	1,520	4,468	1,184	3,490	2,558	7,791
Total Major Customers	12,161	47,106	11,990	43,720	11,184	47,872	8,628	37,976	10,585	49,439
Others(1)	4,397	30,401	5,356	34,252	6,043	34,919	4,190	24,141	7,085	39,672
Total Sales	16,558	77,507	17,346	77,972	17,227	82,791	12,818	62,117	17,670	89,111

(1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

SAFETY, HEALTH AND ENVIRONMENTAL REGULATION AND INITIATIVES

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

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

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008. The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and the Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate in 2014.

For each of its expansion 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.

The Company's coal-fired power plants have maintained levels of emission lower than the standards set by the DENR. The following table sets forth the level of [nitrogen oxide ("**NOx**"), sulfur dioxide ("**SO_2**") and particulate matter ("**PM**") emissions of the power plants owned and operated by the Company, as well as the applicable emission control standards, for the nine months ended September 30, 2018:

	NOx		**SO_x**		**PM**	
Power Plant	**Emissi on level**	**DENR Standard**	**Emission level**	**DENR Standard**	**Emission level**	**[DENR] Standard**
	(Mg/Nm^3)		**(Mg/Nm^3)**		**(Mg/Nm^3)**	
Sual Power Plant*........	460.7	1,500.0	996.3	1,500.0	16.1	200.0
Masinloc Power Plant..	210.1	1,500.0	299.8	1,500.0	56.8	200.0
	(ppm)		**(ppm)**		**(Mg/Nm^3)**	
Limay Power Plant.......	101.3	487.0	82.8	245.0	6.5	150.0
Davao Power Plant......	80.1	487.0	93.5	245.0	4.9	150.0

**Operated under IPPA Agreement*

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 September 30, 2018, SMC Global Power and its subsidiaries have 1,296 employees, of which 9 are executives, 48 are managers and 105 are supervisors. All employees are based in Philippines.

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. Consistent with the goal of SMC Global Power to be one of the Philippines' preferred employers, SMC Global Power has adopted a rewards and recognition policy that is competitive with industry standards in the Philippines. 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. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talents. Tied to this is a performance management system that calls for the alignment of individual key results, competencies and development plans with the overall business targets and strategy of the Company. Performance is reviewed annually, and employees are rewarded based on the attainment of pre-defined objectives. SMC Global Power also has programs for its employees' professional and personal development.

The executives of SMC Global Power are granted options to subscribe for SMC common shares reserved for issuance under the Long-Term Incentive Plan of San Miguel Corporation, which is administered by the SMC Executive Compensation Committee. A specified number of common shares of San Miguel Corporation are reserved for issuance under the plan at a price equivalent to the fair market value of the common shares of San Miguel Corporation as of the date of the grant, with adjustments depending on the average stock prices of the prior three months.

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.

INSURANCE

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the power plants for which SMC Global Power is the IPPA 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. SMC Global Power is not a beneficiary of any of these insurance agreements. SMC Global Power employs risk management for purposes of analyzing the risks faced by its business in the determining the appropriate insurance policies. SMC Global Power does not have business interruption insurance for its IPPA Plants and believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. SMC Global Power has procured all the necessary insurance policies to cover all insurable risks of the Limay and Davao Greenfield Power Plants, and the Masinloc Power Plant.

INTELLECTUAL PROPERTY

SMC Global Power owns exclusive rights to its corporate name. Management believes that the business of SMC Global Power as a whole is not materially dependent on any trademark or on any other intellectual property.

RECENT DEVELOPMENTS

On January 25, 2019, the Company subscribed to additional 18,314,898 common shares of MPGC, increasing its ownership from 49% to 73.58% of the total issued and outstanding capital stock of MPGC, as a result of the waiver by MGen and Zygnet of their right to contribute additional equity pursuant to the capital call approved by MPGC. On the same date, the Company subscribed to an additional 28,929,347 common shares to be issued out of the proposed increase in the authorized capital stock of MPGC upon approval by the SEC.

Description of Properties

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

Certain Legal Proceedings

Petition to stop the imposition of the increase in generation charge

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for Temporary Restraining Order ("**TRO**") and/or Preliminary Injunction ("**Petition**") filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. The TRO was originally for a period of 60 days.

On January 08, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("**Counter Petition**") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an Order treating the Counter-Petition as in the nature of a Third-Party Complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

In a Resolution dated April 22, 2014, the Supreme Court extended the effectivity of the TRO indefinitely. To date, the Petition is pending resolution with the Supreme Court.

ERC Order voiding WESM prices

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

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. On May 9, 2014, the ERC issued an order directing PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases.

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

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

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

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

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid motions. On June 2018, the intervenors filed their respective motions for reconsideration of the said Resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to the various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018. To date, the Court of Appeals has yet to resolve the aforesaid Motions, Comments, and Oppositions filed by the various parties.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to ₱2.322 billion, plus interest.

Petition to Nullify ERC Resolution No. 1, Series of 2016

A Petition for Certiorari and Prohibition with Urgent Prayer for the issuance of the TRO and/or Writ of Preliminary Injunction dated November 3, 2016 was filed before the Supreme Court by Alyansa Para Sa Bagong Pilipinas, Inc. ("Petition") seeking the nullification of ERC Resolution No. 1, Series of 2016 ("**ERC Resolution No. 1**") for allegedly having been issued in grave abuse of discretion, amounting to lack or excess of jurisdiction as it allowed Meralco to directly enter into power supply contracts with certain generators, including Mariveles Power Generation Corporation ("**MPGC**") and Central Luzon Premiere Power Corp. ("**CLPPC**"), without undergoing competitive selection process as provided under ERC Resolution No. 1 which mandates that effective April 20, 2016, all power supply contracts shall only be awarded to a generation company following a successful competitive selection process conducted by all distribution utilities.

The Petition was raffled to the Second Division of the Supreme Court.

On November 16, 2016, the Second Division of the Supreme Court issued an Order requiring the respondents to file their comments to the Petition. On July 18, 2017, MPGC and CLPPC filed their respective Comments/Opposition to the said Petition.

In a Resolution dated September 5, 2018, the Second Division of the Supreme Court endorsed the petition to the Supreme Court En Banc where it is still pending to date.

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 its position that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

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

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

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this June 27, 2016 Order of the RTC, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders". The Court of Appeals, however, denied the petition filed by PSALM in its decision dated December 19, 2017 ("**CA Decision**"). In the CA Decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the IPPA agreement while the case in the lower court is pending.

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

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision and the CA Resolution.

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

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. The issue is now pending resolution with the RTC.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the IPPA Agreement in 2022.

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

Complaints for estafa and corruption against PSALM officers

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

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

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

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for Plunder and violation of Section 3(e) and 3(f) of R.A. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

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

SMEC Consignation Case

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

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

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

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

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

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

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**") including SMEC and MPPCL, which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs, to recover the line loss collected by them as these SGCs were not parties to the petition for dispute resolution filed by Meralco in 2008. On July 1, 2013, the ERC clarified its previous order stating that SPPC should be included as one of the SGCs against whom Meralco is directed to file a petition.

In compliance with the ERC's March 4, 2013 and July 1, 2013 Order, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC. On September 20, 2013, SMEC, SPPC and MPPCL jointly with the other SGCs filed a Motion to Dismiss before the ERC, on the ground of the Petition's failure to state a cause of action and the ERC's lack of jurisdiction over the subject matter of the Petition. To date, the Joint Motion to Dismiss remains unresolved by the ERC.

Validity of Concession Agreement with ALECO

The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed on December 16, 2014 by a certain group of persons headed by an individual who claims to be the president of ALECO (the "**Appellants**"), against APEC and its former general manager (the "**Defendants**"), enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global Power that was subsequently assigned to APEC. 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. On November 23, 2016, the Court of Appeals issued a decision (“**November 2016 Decision**”) reversing the decision of the trial court on the ground that no pre-trial conference was conducted and ruled that the case should be remanded back to conduct the pre-trial conference and for the case to be resolved with dispatch in accordance with the Rules of Court. After motion for reconsideration from Defendants, the Court of Appeals sustained its November 2016 Decision on June 26, 2018.

To date, the Defendants have not received any order from the trial court on the schedule of the pre-trial conference.

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, Dividends and Distributions, and Related Stockholder Matters

Market Information

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

Stockholders

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

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

Dividend Policy

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

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

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

2016

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

There were no cash dividend declarations during the years ended December 31, 2017 and for the nine months ended September 30, 2018.

Distributions to Undated Subordinated Capital Securities (USCS) Holders

SMC Global Power issued and listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	$300,000,000	₱13,823,499,000
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000,000	13,110,066,000
				$600,000,000	**₱26,933,565,000**

Details of distributions paid to USCS holders are as follows:

(in thousand)	**September 30, 2018 (Unaudited)**	December 31, 2017 (Audited)	December 31, 2016 (Audited)
February	**₱746,068**	₱720,611	₱689,223
May	**830,491**	799,583	756,804
August	**767,981**	729,868	681,412
November		824,142	777,134
	₱2,344,540	₱3,074,294	₱2,904,573

Distributions to Redeemable Perpetual Securities (RPS) Holders

Details of distributions paid to RPS holder are as follows:

(in thousand)	**September 30, 2018 (Unaudited)**
June	**₱543,156**
September	**536,758**
	₱1,079,914

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

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

1. SMC Global Power Shares

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

2. Redeemable Perpetual Securities

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

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

Management's Discussion and Analysis of Results of Operations and Financial Condition

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of SMC Global Power Holdings Corp. ("SMC Global Power" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended September 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended September 30, 2017). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of September 30, 2018, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2018 SIGNIFICANT TRANSACTIONS

INVESTMENTS

- **Acquisition of Subsidiaries, including the MPPCL Assets**
  On March 20, 2018, SMC Global Power completed the acquisition of 100% equity interest in Masin-AES Pte. Ltd., AES Transpower Private Ltd. (provider of corporate support services), and AES Philippines Inc. (provider of energy marketing services), for a total consideration of $1,900 million, subject to a post-closing purchase price adjustment. MAPL indirectly owns, through its subsidiaries [including Masinloc Power Partners Co. Ltd. ("MPPCL")], the 2 x 315 megawatts (MW) coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets") and the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental, which is still at the pre-development stage.

  The transaction was financed through the following:

  a) Availment by SMC Global Power of a $700 million (₱36,351 million) floating interest rate term loan and a $500 million (₱25,965 million) floating interest rate term loan maturing in March 2023.

     The $700 million loan is divided into Facility A Loan amounting to $200 million maturing on March 12, 2021 and Facility B Loan amounting to $500 million maturing on March 13, 2023. The loans are subject to repricing based on LIBOR plus spread.

  b) $650 million Redeemable Perpetual Securities (RPS) issued by SMC Global Power and subscribed to by its parent company, SMC; and

  c) $150 million (₱7,790 million) advanced by SMC to SMC Global Power.

     On August 17, 2018, SMC Global Power paid the $150 million advance from SMC.

     In September 2018, SMC Global Power partially paid $220 million of the $500 million term loan.

  The MPPCL Assets add 640 MW capacity to the Group's existing portfolio, thereby increasing the total generating capacity of the Group to 4,197 MW accounting to 19% market share of power supply of the National Grid, 25% market share of the Luzon Grid and 9% market share of the Mindanao Grid as of September 30, 2018.

- **Acquisition of 60% (Non-controlling Interest) in Alpha Water and Realty Services Corp. (“Alpha Water”)**

  On July 13, 2018, PEGC, a wholly-owned subsidiary of the Parent Company, acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water. Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant Complex in Zambales Province is located.

REDENOMINATION OF FOREIGN CURRENCY DEBT

- **Issuance of ₱15,000 Million Fixed Rate Peso-denominated Bonds by SMC Global**

  On August 17, 2018, SMC Global Power issued and listed with the PDEx peso-denominated fixed-rate bonds (“Bonds”) amounting to ₱15,000 million. The Bonds have interest rate equivalent to 6.75% per annum due 2023.

  The proceeds from the issuance were partly used to refinance/redenominate existing obligations and pay-off outstanding shareholder advances obtained for the acquisition of Masinloc.

AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS

- **SMC Consolidated Power Corporation (SCPC)**

  On January 31, 2018, SCPC drew ₱2,000 million from the ₱44,000 million Omnibus Loan and Security Agreement (OLSA) with various local banks dated June 22, 2017 to finance the ongoing construction of the 2 x 150 MW Limay Greenfield Power Plant (Phase II, Units 3 and 4).

- **Masinloc Power Partners Co. Ltd. (MPPCL)**

  On July 6, 2018, MPPCL drew $60 million from the $525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335MW (Unit 3) coal-fired plant within the existing facilities of MPPCL. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

- **San Miguel Consolidated Power Corporation (SMCPC)**

  On August 17, 2018, SMCPC drew ₱20,322 million from the ₱21,300 million OLSA with various local banks dated August 9, 2018 for the partial payment of shareholder advances, repayment in full of the ₱5,930 million short-term loan used to fund the design, construction and operations of the 2 x 150 MW Davao Greenfield Power Plant.

II. FINANCIAL PERFORMANCE

<u>2018 vs. 2017</u>

Revenues

The Group’s consolidated net revenues for the nine months ended September 30, 2018 registered at ₱89,111 million, 43% or ₱26,994 million higher than last year’s ₱62,117 million for the same period. The increase was driven by: (i) revenues contributed by the newly acquired Masinloc Power Plant; (ii) additional revenues from the commercial operations of SCPC’s Limay Power Plant Units 1, 2 and 3 (starting in May 2017, September 2017 and March 2018, respectively) and San Miguel Consolidated Power Corporation’s (SMCPC) Davao Greenfield Power Plant Units 1 and 2 (starting in July 2017 and February 2018, respectively); (iii) additional contracted customers of San Miguel Electric Corp.

- Retail Electricity Supplier (SMELC - RES); (iv) higher average prices for Sual bilateral and spot offtake volumes; and (v) higher spot sales for Ilijan.

Cost of Power Sold

Cost of power sold likewise increased by 50% or ₱19,600 million, from ₱38,993 million for the nine months ended September 30, 2017 to ₱58,593 million for the same period of 2018. The increase was attributable mainly to the following: (i) inclusion of cost of power sold incurred by the newly acquired Masinloc Power Plant which became a subsidiary of SMC Global Power only in 2018; (ii) costs incurred by SCPC and SMCPC due to the start of the commercial operations of its power plants; and (iii) higher power distribution costs incurred by RES-licensed companies (SMELC) and SCPC due to an increase in its customers.

Selling and Administrative Expenses

Selling and administrative expenses increased by 38% or ₱1,309 million, from ₱3,456 million for the nine months ended September 30, 2017 to ₱4,765 million in 2018. The increase was mainly due to the operating expenses incurred by the newly acquired Masinloc entities and additional professional fees incurred for legal and financial advisory services rendered by third parties which were engaged by SMC Global Power for the acquisition of SMCGP Masin Pte. Ltd. (“SMPL”, formerly Masin-AES Pte. Ltd.), SMCGP Transpower Pte. Ltd. (formerly AES Transpower Pte. Ltd. and herein after referred to as “SMCGP Transpower”) and SMCGP Philippines, Inc. (formerly, AES Philippines Inc.).

Operating Income

As a result of the foregoing, consolidated income from operations increased by 31% or ₱6,085 million, from ₱19,668 million in the nine months ended September 30, 2017 to ₱25,753 million in the nine months ended September 30, 2018.

Other Income (Charges)

Net foreign exchange differential, arising mainly from the Group’s US dollar-denominated liabilities, increased from ₱2,775 million loss in 2017 to ₱8,380 million loss in 2018 on account of the significant depreciation of the Philippine peso against the US dollar during the nine months ended September 30, 2018 (₱49.93 to ₱54.02) as compared to nine months ended September 30, 2017 (₱49.72 to ₱50.815).

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

Income Tax Expense

Net income tax expense of ₱1,630 million for the nine months ended September 30, 2018 was lower by 52% or ₱1,752 million compared to last year’s ₱3,382 million, primarily because of lower income before tax and deferred income tax expense arising from the temporary differences relating to the Independent Power Producer Administrator (IPPA) entities’ finance lease liability-related expenses.

Net Income

Consequently, the consolidated net income of the Group for the nine months ended September 30, 2018 decreased by 24% or ₱1,353 million from ₱5,719 million in 2017 to ₱4,366 million in 2018.

2017 vs. 2016

Revenues

The Group's offtake volume for the period ended September 30, 2017 was 12,818 gigawatt hours (GWh), 5% lower compared to same period in 2016 due to lower bilateral volumes from Ilijan and Sual Power Plants caused by: (i) the scheduled maintenance shutdown of Ilijan Power Plant concurrently with the Malampaya gas facility from January 28 to February 16, 2017; (ii) Sual Unit 2 shutdown due to transformer failure starting last June 14, 2017; (iii) Illijan Block 2 shutdown from April 9 to 17, 2017 after a series of earthquakes in Batangas; (iv) lower offtake volume of Unit 1 due to the decline in Manila Electric Company (Meralco) nominations; and (v) the sale of Limay Co-generation Power Plant of SMC Powergen Inc. (SPI) in December 2016. Nevertheless, the start of the commercial operations of both Units 1 of the Limay and Davao Greenfield Power Plants and the improvement in San Roque plant's power dispatch, due to better hydrological conditions, partially covered up the power requirements needed.

Revenues still ended 2% higher than last year to ₱62,117 million brought about by higher average realization prices for Ilijan and Sual bilateral offtake volumes, on account of higher pass-through fuel charges, and additional retail electricity supply (RES) customers contracted in 2017 for SMELC and SCPC.

Cost of Power Sold

Cost of power sold increased by 14%, to ₱38,993 million for the first nine months of 2017 from ₱34,160 million for the same period of 2016. The increase was attributable mainly to the following: (i) higher cost of coal for the Sual Power Plant, (ii) higher energy fees incurred by the Ilijan Power Plant due to utilization of diesel resulting from the Malampaya gas facility shutdown, and (iii) higher power distribution costs incurred by the RES-licensed Companies due to additional customers. The increase was mitigated by the drop in cost of sales of SPI by ₱2,736 million following the sale of its Limay Co-generation Power Plant.

Selling and Administrative Expenses

Operating expenses declined by 7% to ₱3,456 million for the first nine months of 2017 from ₱3,701 million in 2016. The decrease was mainly on account of lower operating expenses incurred by SPI in 2017 by P593 million.

Operating Income

As a result, September 2017 year-to-date consolidated income from operations registered at ₱19,668 million, dipped by 14% from the previous year's ₱22,838 million.

Other Income (Charges)

Net foreign exchange losses of ₱2,775 million, recognized mainly from the settlement and revaluation of USD-denominated liabilities, was lower by 42% than the ₱4,792 million losses in 2016 due to lower depreciation of the Philippine peso against the US dollar for the first nine months of 2017 compared to the same period in 2016.

Other income from PSALM monthly fees reduction increased by ₱1,585 million as a result of the extended shutdown of Sual Unit 2.

Interest expense and other financing charges increased by 11% or ₱1,033 million due to the outright expense recognition of the unamortized debt issue costs of the pre-terminated long-term debts of SMC Global Power and SCPC amounting to $700 million and $359 million, respectively.

Income Tax Expense

Net income tax expense at ₱3,382 million was lower by 3% compared to the previous year's ₱3,469 million to ₱3,382 million this year, as a net result of: (i) lower operating income of the Group which consequently reduced the current income tax by ₱712 million, largely on account of the sale of SPI's power plant, and (ii) higher deferred income tax expense by ₱602 million recognized mainly from the temporary difference between the actual monthly fixed payments of the IPPA entities to PSALM over the finance lease liability-related expenses.

Net Income

Consequently, the consolidated net income of the Group for this year slightly decreased from ₱5,736 million in 2016 to ₱5,719 million in 2017.

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

1. **POWER GENERATION**

2018 vs. 2017

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

Year-to-date net generation of 4,819 GWh, at 73% net capacity factor rate, was 8% higher than last year due to lower outage hours with the replacement of the main transformer for Sual Unit 2 (from January 18 to February 9, 2018) and annual maintenance shutdown of Sual Unit 1 for 60 days starting August 31, 2018. In 2017, Sual Unit 2 was on a prolonged shutdown due to the generator transformer failure which was replaced in 2018. Total offtake volume slightly increased to 6,505 GWh this year from 6,484 GWh last year due to higher bilateral and spot sales.

Net revenues of ₱32,101 million was 5% higher than last year driven by higher average selling prices due to higher indices (NewCastle index, Forex rates, US & Philippine Consumer Price index).

Operating income of ₱8,673 million was 7% lower than last year's ₱9,313 million owing to the decline in volume sold to Meralco as a result of the annual maintenance shutdown of Unit 1 during the period.

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

Net generation of Ilijan Power Plant in 2018 of 5,785 GWh declined by 5% while total offtake volume of 5,884 GWh decreased by 4% compared to the same period in 2017. The decrease was mainly attributable to longer combined outage hours experienced in the current period, for the planned maintenance shutdowns of Blocks 1 and 2, compared to the outage hours in 2017 resulting from the Malampaya natural gas facility restriction.

Net revenues of ₱26,982 million for the period ended September 30, 2018 was 4% higher than 2017, despite the lower offtake volume during the period attributable to the increase in average selling prices (on account of higher average pass-through gas prices and forex rates in 2018) for bilateral volumes and the increase in average spot sales price. Consequently, operating income of ₱7,762 million in 2018 was 7% higher than the ₱7,240 million posted in 2017.

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

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

Net revenues of ₱5,315 million for the period ended September 30, 2018 increased by 2%, despite the decline in average selling prices, due to higher offtake volume by 261 GWh compared to 2017. Average selling prices decreased by 14% due to decline in WESM prices during the period.

As a result of the lower average selling prices in 2018, SPDC's operating income for the period declined by 7% from ₱2,297 million in 2017 to only ₱2,130 million in 2018.

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

Limay Greenfield Power Plant Units 1, 2 and 3, with a combined capacity of 450 MW, started commercial operations on May 26, 2017, September 26, 2017 and March 26, 2018, respectively, following the completion of its testing and commissioning phase and the Energy Regulatory Commission (ERC) issuance of a Provisional Authority to Operate (PAO) in favor of the three units. Total generation of the three units was 1,824 GWh for the nine months ended September 2018, of which 1,292 GWh was dispatched to its power generation customers while the rest was dispatched to its RES customers. On the other hand, total offtake volume of 1,364 GWh was sold to bilateral customers, spot market and as replacement power to SMEC.

For the nine months ended September 2018, net revenues and operating income from SCPC's power generation business registered at ₱6,285 million and ₱1,049 million, respectively.

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

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

Total net generation was 1,020 GWh and 124 MWh for the nine months ended September 30, 2018 and 2017, respectively. While the total offtake volume of 1,029 GWh and 128 GWh for the nine months ended September 30, 2018 and 2017, respectively, was sold to electric cooperatives and contestable customers.

Net revenues and operating income registered at ₱5,480 million and ₱1,947 million, respectively, for the period ended September 30, 2018.

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

Following the acquisition of the MPPCL assets on March 20, 2018, the Masinloc Power Plant operating Units 1 and 2, with a combined net capacity of 617 MW, have contributed a total net generation of 2,197 GWh from the period March 21 to September 30, 2018.

Total offtake volume of 2,718 GWh was sold to electric cooperatives and contestable customers. Year to date net revenues and operating income registered at ₱13,180 million and ₱3,232 million, respectively.

2017 vs. 2016

a. **SMEC, Sual Power Plant**

Year-to-date net generation of 4,474 GWh, at 68% net capacity factor rate, was 17% lower than the same period in 2016 due to higher outages resulting from transformer failure of Sual Unit 2 starting on June 14, 2017. Moreover, total offtake volume of Unit 1 decreased by 1% to 6,484 GWh compared to the previous year due to lower nominations from Meralco. SMEC sourced its replacement power from other generators to compensate for the low generation of Unit 2.

Net revenues of ₱30,630 million was 11% ahead of the previous year's ₱27,594 million due to increase in average selling prices resulting from higher pass-through fuel costs.

Meanwhile, operating income of ₱9,313 million was 21% lower compared to the previous year's ₱11,852 million on account of lower offtake volume and higher cost of replacement power supplied to bilateral customers.

b. **SPPC, Ilijan Power Plant**

Due to the scheduled maintenance of Ilijan Power Plant as a result of the Malampaya gas facility shutdown from January 28 to February 16, 2017 and the series of earthquakes in Batangas from April 9 to 17, 2017, year-to-date net generation of 6,059 GWh was 3% lower while total offtake volume of 6,139 GWh dropped by 6% compared to the previous year.

Net revenues of ₱25,990 million managed to increase by 11% compared to the previous year's ₱23,347 million due to higher average selling prices primarily attributable to the pass-through diesel costs and upward adjustment on capacity fees.

However, operating income only increased by 3% to ₱7,240 million for the first nine months of 2017 from ₱7,018 million of 2016 same period as a result of lower bilateral offtake volume and higher operating expenses.

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

Net generation for the period ended September 30, 2017 improved by 16% at 540 GWh compared to the previous year's 467 GWh due to better hydrological conditions. Total offtake volume, however, declined by 15% mainly on account of the expiration of the Power Supply Contract with Albay Power and Energy Corp. in December 2016.

Net revenues likewise decreased by 3% to ₱5,197 million which was moderated by the increase in average realization prices for both WESM and replacement power sales volumes.

Notwithstanding the decline in the offtake volume and net revenues, operating income for 2017 of ₱2,297 million still improved significantly by 45% from last year's ₱1,581 million due primarily to higher average realization prices and better revenues from the sale of contract capacity.

d. **SPI, Limay Co-generation Power Plant**

On December 23, 2016, SPI sold its 4 x 35MW Limay Co-generation Power Plant located in Barangay Alangan, Limay, Bataan to Petron Corporation. As part of SMC Global Power's expansion program, future capital projects may be assigned to SPI by the management.

e. **SCPC, Limay Power Plant**

The first two units of the 4 x 150MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant, located in Limay, Bataan was successfully synchronized to the Luzon grid in November 2016 and May 2017, respectively. Unit 1 and Unit 2 started commercial operations in May 26, 2017 and September 26, 2017, respectively, following the completion of its testing and commission phase and the ERC issuance of a PAO in favor of SCPC for the aforesaid Units.

For the first nine months of 2017, a total of 289 GWh was generated by the Limay Greenfield Power Plant while net revenues and operating income from its power generation activities amounted to ₱760 million and ₱38 million, respectively.

f. **SMCPC, Malita, Davao Power Plant**

The first unit of 2 x 150MW CFB Coal-fired Power Plant, located in Malita, Davao Occidental was successfully synchronized to the Mindanao grid in May 2016. Subsequently, Unit 1 started commercial operations on July 26, 2017 following the completion of its testing and commissioning phase and the ERC issuance of a PAO in favor of SMCPC for Unit 1.

As of September 30, 2017, a total of 124 GWh was generated by the Davao Greenfield Power Plant while net revenues and operating income registered at ₱712 million and ₱220 million, respectively.

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

<u>2018 vs. 2017</u>

a. **SMELC-RES**

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

Offtake volume of 1,448 GWh for the first nine months of 2018 almost doubled compared to last year's 816 GWh. The increase was attributable to the following: (i) higher electricity requirements of existing customers, and (ii) additional 29 contestable customers contracted in 2018. This led to the 59% increase in net revenues in 2018 which registered at ₱8,782 million.

Higher volume and improved margin, to cover costs and operating expenses, allowed SMELC to post an operating income amounting to ₱68 million for the first three quarters of 2018, an improvement from the ₱27 million posted in 2017.

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

Net revenues of ₱2,342 millon was 17% higher than last year's ₱2,001 million primarily driven by higher offtake volume and increase in average selling price due to higher passed-through generation cost.

Consequently, operating loss of ₱62 million for the nine months ended September 30, 2018 was 56% lower compared to the ₱142 million operating loss reported during the same period in 2017.

c. **SCPC-RES**

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

For the nine months ended September 2018, total offtake volumes registered at 536 GWh while net revenues and operating income amounted to ₱2,824 million and ₱968 million, respectively.

2017 vs. 2016

a. **SMELC-RES**

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

Offtake volume of 816 GWh for the first nine months of 2017 was 157% higher compared to the previous year's 317 GWh. The increase was attributable to higher electricity requirements of existing customers and of the additional 27 contestable customers contracted in 2017. This led to a 168% increase in net revenues which registered at ₱5,523 million in 2017.

Higher volume allowed SMELC to post an operating income of ₱27 million, an improvement from last year's ₱5 million.

b. **APEC**

Net revenues of ₱2,001 million was 6% lower than the previous year's ₱2,125 million due to the drop in average realization price by ₱602/MWh, on account of lower pass-through generation costs, coupled with lower sales volume by 272 MWh.

Meanwhile, operating loss further ballooned from ₱65 million in 2016 to ₱142 million in 2017 same period as operating expenses grew by ₱59 million due mainly to additional impairment losses recognized.

d. **SCPC-RES**

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

For the first nine months of 2017, total offtake volume registered at 165 GWh while net revenues and operating income from its retail of electricity amounted to ₱940 million and ₱230 million, respectively.

III. FINANCIAL POSITION

2018 vs. 2017

The Group's consolidated total assets as of September 30, 2018 amounted to ₱501,379 million, higher by 43% or ₱151,206 million than the December 31, 2017 balance of ₱350,173 million. The increase is attributable to the following factors:

a. Higher cash balance from the remaining proceeds of the $1,350 million (₱70,106 million) long-term borrowings availed and $650 million (₱32,752 million, net of transaction costs) RPS issued by SMC Global Power on March 16, 2018 to finance the acquisition of the SMPL, SMCGP Transpower and SMCGP Philippines, Inc. entities for a total consideration of $1,900 million (equivalent to ₱98,990 million) on March 20, 2018 and from the ₱20,322 million term loan drawn by SMCPC which was used to prepay its short-term loans and its financing costs and shareholder advances.

b. Consolidation of the assets of SMPL, SMCGP Transpower and SMCGP Philippines, Inc. entities totaling to ₱77,486 million, to the Group's total assets (as a result of the acquisition of 100% interests in these entities, largely comprising of the Masinloc power plant and related facilities (₱66,696 million), trade and other receivables (₱2,428 million), inventories (₱1,999 million), prepaid expenses and other current assets (₱1,266 million) and other noncurrent assets (₱1,429 million).

c. Provisional goodwill amounting to ₱69,944 million recognized on the business combination arising from the aforesaid acquisition.

d. Higher trade receivables of SMEC, SPPC, SPDC, SMELC and SMCPC by ₱4,110 million.

The Group's consolidated total liabilities as of September 30, 2018 amounted to ₱407,560 million, 40% or ₱117,153 million higher than the December 31, 2017 balance of ₱290,407 million. The major items accounting for the increase are as follows:

a. Increase in long-term debts and other noncurrent liabilities due to the (i) various long-term borrowings availed by SMC Global Power totaling to $1,350 million (₱70,106 million) which was used to finance the Masinloc acquisition; (ii) loan availment of SMCPC amounting to ₱20,322 million from its OLSA to refinance its short-term loan of ₱5,930 million and partially pay its shareholder advances of ₱13,561 million; (iii) issuance of ₱15,000 million fixed rate bonds by SMC Global Power to fully pay the $150 million (₱8,100 million) shareholder advances and a portion of its $500 million term loan ($220 million, equivalent to ₱11,966 million – also funded in part by the ₱13,561 million received from SMCPC); (iv) additional ₱2,000 million loan drawn by SCPC from its ₱44,000 million credit facility to fund the Limay Phase II capital expenditures requirements and (v) partly offset by payment of finance lease liabilities by SMEC, SPPC and SPDC (₱6,193 million).

b. Consolidation of the liabilities of SMPL, SMCGP Transpower and SMCGP Philippines, Inc. entities totaling to ₱44,278 million, to the Group's total liabilities, consisting mainly of: short and long-term debts (₱37,811 million), trade and other current liabilities (₱6,218 million), and other noncurrent liabilities ₱250 million.

2017 vs. 2016

The Group's consolidated total assets as of September 30, 2017 amounted to ₱353,276 million, higher by ₱19,327 million than December 31, 2016. The net movement is accounted for as follows:

a. The increase in cash and cash equivalents by ₱9,766 million was due mainly to the proceeds from the short and long term loans availed by SCPC, SMC Global Power, and SMCPC (₱106,146 million) less funds (i) used for the settlement of the Group's USD-denominated term loans (₱81,518 million), (ii) used to defray the additional costs for the greenfield power plants construction (₱7,500 million) and related input VAT (₱2,263 million) and (iii) transferred to restricted cash (₱4,912 million) to cover debt servicing and capital expenditure requirements of SCPC.

b. Inventories decreased by ₱445 million due to lower coal ending inventory for Sual, Limay and Davao Greenfield Power Plants as consumption more than offsets the purchases during the period.

c. Assets held for sale dropped by ₱120 million due to sale of roller press and elevator units to a related party in July 2017.

d. Deferred tax assets decreased by ₱671 million due primarily to SMEC's recognition of deferred income tax expense on the reduced temporary difference between the finance lease liability-related expenses over the actual monthly fixed payments to PSALM.

e. Increase in other noncurrent assets by ₱7,261 million was due mainly to the input VAT recognized by SCPC on its acquisition of the 300MW power plant project (Phase II) from LPPC and its transfer of ₱4,912 million funds to restricted cash account to cover debt servicing and capital expenditure requirements.

The Group's consolidated total liabilities as of September 30, 2017 amounted to ₱295,136 million, ₱15,857 million higher than the December 31, 2016 balance of ₱279,279 million. The major items accounting for the net movement are as follows:

a. SMC Global Power availed of a $200 million (₱10,040 million) and a ₱5,000 million short-term loans from local banks in August and September 2017, respectively, for general corporate purposes. Meanwhile, SMCPC also obtained a ₱5,930 million short-term loan in June 2017 to defray its capital expenditures.

b. The increase in income tax payable by ₱79 million mainly pertains to SMEC's additional income tax due for the third quarter of 2017.

c. Long-term debt increased by ₱4,792 million primarily due to the net effect of the following: (i) availment of ₱42,000 million long-term debt by SCPC in June 2017, which was partly used to pay its $360 million bridge loan, (ii) prepayment of the $700 million long-term debt of SMC Global Power which was settled in part by a ₱15,000 million long-term debt availed in April 2017.

d. Deferred tax liabilities increased by ₱1,065 million mainly due to the temporary difference arising from the actual monthly fixed payment to PSALM over the finance lease liability-related expenses for the period of SPPC and SPDC.

Equity

The increase in equity is due to:

(in Millions)	September 30	
	2018	2017
Issuance of RPS	**₱32,752**	₱-
Net income attributable for the period attributable to equity holders of the Parent Company	**4,348**	5,719
Gain on exchange differences on translation of foreign operations	**839**	-
Adjustment due to PFRS 15	**(60)**	-
Equity reserves	**(401)**	-
Distributions paid to RPS holder	**(1,080)**	-
Distributions paid to USCS holders	**(2,345)**	(2,250)
	₱34,053	₱3,469

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(in Millions)	September 30	
	2018	2017
Net cash flows provided by operating activities	**₱12,177**	₱21,989
Net cash flows used in investing activities	**(100,750)**	(15,162)
Net cash flows provided by financing activities	**93,272**	2,828

The effect of exchange rate changes on cash and cash equivalents amounted to ₱761 million, and ₱111 million on September 30, 2018 and 2017, respectively.

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

(in Millions)	September 30	
	2018	2017
Decrease (increase) in other noncurrent assets	**₱2,179**	(₱7,240)
Additions to deferred exploration and development costs	**(3)**	(3)
Additions to intangible assets	**(92)**	(90)
Additions to investments and advances	**(458)**	(328)
Acquisition of non-controlling interest	**(532)**	-
Additions to property, plant and equipment	**(4,510)**	(7,501)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(97,334)**	-

Net cash flows provided by (used in) financing activities included the following:

(in Millions)	September 30	
	2018	2017
Proceeds from long-term borrowings	**₱102,879**	₱57,000
Proceeds from short-term borrowing	**35,580**	86,559
Proceeds from issuance of RPS	**32,752**	-
Cash dividends paid to previous owner of non-controlling interest	**(4)**	-
Distributions paid to RPS holder	**(1,080)**	-
Distributions paid to USCS holders	**(2,345)**	(2,250)
Payments of long-term borrowings	**(13,779)**	(53,110)
Payments of finance lease liabilities	**(19,221)**	(18,592)
Payments of short-term borrowings	**(41,510)**	(66,779)

IV. KEY PERFORMANCE INDICATORS

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

LIQUIDITY RATIO

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

	Conventional		Adjusted[1]	
(in Millions P)	**September 2018**	December 2017	**September 2018**	December 2017
(A) Current Assets	**90,157**	70,030	**90,157**	70,030
(B) Current Liabilities	**60,187**	55,141	**40,861**	38,297
Current Ratio (A) / (B)	**1.50**	1.27	**2.21**	1.83

(1) Current portion of finance lease liabilities, in relation to the IPPA Agreements with PSALM, are excluded from the total current liabilities as these current obligations on finance lease are pass-through charges billable to customers. As of September 30, 2018 and December 31, 2017, current portion of finance lease liabilities amounted to ₱19,326 million and ₱16,844 million, respectively.

SOLVENCY RATIO

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

(in Millions P)	**September 2018**	December 2017
(A) Net Debt[2]	**271,308**	187,173
(B) Total Equity[3]	**94,789**	62,980
Net Debt-to-Equity Ratio (A) / (B)	**2.86**	2.97

(2) Consolidated net total debt plus total PSALM lease liabilities.
(3) Consolidated total equity (excluding amounts attributable to ring-fenced subsidiaries as defined in the relevant credit facility agreement of the Parent Company).

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

	Conventional		Adjusted[4]	
(in Millions P)	**September 2018**	December 2017	**September 2018**	December 2017
(A) Total Assets	**501,379**	350,173	**332,695**	177,600
(B) Total Equity	**93,819**	59,766	**93,819**	59,766
Asset-to-Equity Ratio (A) / (B)	**5.34**	5.86	**3.55**	2.97

(4) Net carrying amount value of the IPPA power plants, in relation to the IPPA Agreements with PSALM, was omitted in total assets as these power plant assets were capitalized with corresponding finance lease liabilities. As of September 30, 2018 and December 31, 2017, net carrying amount of IPPA power plant assets amounted to ₱168,684 million and ₱172,573 million, respectively.

PROFITABILTY RATIO

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

(in Millions P)	**September 2018**	December 2017
(A) Net Income[(5)]	**6,864**	8,217
(B) Total Equity	**93,819**	59,766
Return on Equity (A) / (B)	**7.3%**	13.7%

(5) Annualized for quarterly reporting.

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

(in Millions P)	**September 2018**	December 2017
(A) EBITDA[(6)]	**34,298**	32,529
(B) Finance Cost[(7)]	**13,371**	11,296
Interest Coverage Ratio (A) / (B)	**2.57**	2.88

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

OPERATING EFFICIENCY

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

	Periods Ended September 30	
(in GWh)	**2018**	2017
(A) Current Period Offtake Volume	**17,670**	12,818
(B) Prior Period Offtake Volume	**12,818**	13,531
Volume Growth (Decline) [(A / B) – 1]	**37.9%**	(5.3%)

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

	Periods Ended September 30	
(in Millions P)	**2018**	2017
(A) Current Period Revenue	**89,111**	62,117
(B) Prior Period Revenue	**62,117**	60,700
Revenue Growth (Decline) [(A / B) – 1]	**43.5%**	2.3%

Income from Operating Activities

Operating Margin **=** **---**

Revenues

	Periods Ended September 30	
(in Millions P)	**2018**	2017
(A) Income from Operating Activities	**25,753**	19,668
(B) Revenues	**89,111**	62,117
Operating Margin (A) / (B)	**28.9%**	31.7%

Management

The overall management and supervision of SMC Global Power is undertaken by the Board. The executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the SMC Global Power's business operations, financial condition and results of operations for its review.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Currently, the Board consists of seven members, of which three are independent directors. The table below sets forth certain information regarding the members of the Board as of the date of this Prospectus.

Name	Age	Position	Citizenship
Ramon S. Ang	65	Director / Chairman	Filipino
Ferdinand K. Constantino	67	Director	Filipino
Aurora T. Calderon	64	Director	Filipino
Virgilio S. Jacinto	62	Director	Filipino
Jack G. Arroyo, Jr.	60	Independent Director	Filipino
Consuelo Ynares-Santiago...........	79	Independent Director	Filipino
Josefina Guevara-Salonga	77	Independent Director	Filipino

The business experience for the past five years of each of the directors and executive officers is set forth below.

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

Ferdinand K. Constantino has served as a Director of SMC Global Power since August 31, 2010, the Vice Chairman of the Board of SMC Global Power since September 2, 2011 and was its Treasurer from August 31, 2010 to September 1, 2011. He is a member of the Executive Committee of SMC Global Power Corporate Governance Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. He is also the Senior Vice President, Group Chief Finance Officer and Treasurer of San Miguel Corporation and was also its Director from May 31, 2010 up to February 28, 2018. He also holds, among others, the following positions in other listed and public companies: Director of Top Frontier Investment Holdings, Inc., San Miguel Brewery Inc., and Petron Malaysia Refining & Marketing Bhd (a company publicly listed in Malaysia), San Miguel Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; he is also the President of Anchor Insurance Brokerage 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; Chief Finance Officer of San Miguel Brewery Inc.; Director of San Miguel Pure

Foods Company, Inc.; Director of San Miguel Properties, Inc.; and Chief Finance Officer of Manila Electric Company. He holds directorships in various domestic and international subsidiaries of San Miguel Corporation.

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

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

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

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

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

SENIOR MANAGEMENT

The table below sets forth certain information regarding the executive officers of SMC Global Power as of the date of this Prospectus.

Name	Age	Position	Citizenship
Ramon S. Ang	65	Chairman, Chief Executive Officer, President and Chief Operating Officer	Filipino
Ferdinand K. Constantino....................	67	Vice Chairman	Filipino
Virgilio S. Jacinto	62	Corporate Secretary and Compliance Officer	Filipino
Elenita D. Go	58	General Manager	Filipino
Paul Bernard D. Causon......................	41	Vice President and Chief Finance Officer	
Ramon U. Agay.	61	Assistant Vice President and Comptroller	Filipino
Irene M. Cipriano	44	Assistant Corporate Secretary	Filipino
Reynaldo S. Matillano..........................	58	Internal Audit Manager	Filipino
Maria Floriselda S. Abalos-Sampaga(1)	54	Data Protection Officer	Filipino
Jeciel B. Campos………………………	60	Assistant Vice President and Sales and Marketing Manager	Filipino
Jose Ferlino P. Raymundo……………	60	Assistant Vice President and Energy Sourcing & Trading Manager	Filipino
Danilo T. Tolarba………………………	50	Assistant Vice President and Human Resources Group Manager	Filipino

(1) Elected on March 11, 2019 to replace Lorenz R. Defensor

The business experience for the past five years of each of the executive officers who are not directors is set forth below.

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

Paul Bernard D. Causon has served as the Chief Finance Officer of SMC Global Power since March 30, 2017 and was appointed Vice President on June 5, 2018. He is concurrently the Chief Finance Officer and Treasurer of Angat Hydropower Corporation. He previously served as Vice President, Head of Treasury and Head of Special Projects of Philippine Airlines Inc. and Air Philippines Corporation; Chief Finance Officer and Treasurer of Liberty Telecoms Holdings, Inc. and Wi-Tribe Telecoms Inc.; Partner, Audit Banks and Other Financial Institutions of Manabat Sanagustin & Co., CPAs; and Vice President and Comptroller of China Banking Corporation.

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

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

Reynaldo S. Matillano has been the Audit Manager of SMC Global Power since November 1, 2015 and was appointed as Internal Audit Manager on June 6, 2017. Previously, Mr. Matillano was part of the audit team of San Miguel Yamamura Packaging Corporation and San Miguel Corporation.

Maria Floriselda S. Abalos-Sampaga was appointed as the Data Protection Officer of the SMC Global Power on March 11, 2019 after having joined the Company as a regulatory compliance specialist on May 1, 2018. Prior thereto, she held positions in several agencies of the government such as the ERC, the National Wages and Productivity Commission and the Department of Labor and Employment.

Jeciel B. Campos is the Sales and Marketing Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Campos is a registered Mechanical Engineer and previously worked as a Marketing & Commercial Relations Officer for Central Luzon region at NPC Regional Office.

Jose Ferlino P. Raymundo is the Energy Sourcing & Trading Manager of SMC Global Power since September 1, 2011 and was appointed Assistant Vice President on June 5, 2018. Mr. Raymundo is a Professional Electrical Engineer with over 32 years of experience in the power sector.

Danilo T. Tolarba has been the Head of the Human Resources Division of SMC Global Power Holdings Corp. since 2015 and was appointed Assistant Vice-President and Human Resources Group Manager of SMC Global Power Holdings Corp. on June 5, 2018. Previously, Mr. Tolarba was the Manager of HR Services, Employee Relations, HR Technology, Organization Development and Recruitment of SMC Corporate Human Resources; and also held other various senior human resources positions in SMC and its subsidiaries prior thereto.

SIGNIFICANT EMPLOYEES

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

FAMILY RELATIONSHIPS

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

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

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

Executive Compensation

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

Name	Period Ended	Salary (in millions)	Bonus (in millions)
Total compensation of the Chief Executive Officer, President and Chief Operating Officer and Senior Executive Officers[1]	December 31, 2019 (estimated)	₱66.8	₱18.2
	December 31, 2018	₱63.4	₱22.9
	December 31, 2017	₱60.3	₱19.7
	December 31, 2016	₱57.0	₱17.3
All other officers and managers as a group	December 31, 2019 (estimated)	₱86.5	₱57.4
	December 31, 2018	₱78.0	₱55.0
	December 31, 2017	₱53.3	₱34.4
	December 31, 2016	₱43.5	₱24.9

[1]The Chief Executive Officer, President and Chief Operating Officer, and Senior Executive Officers of the Company for 2016 to 2019 are Ramon S. Ang, Alan T. Ortiz (resigned effective April 30, 2017), Elenita D. Go, Alexander B.M. Simon (resigned effective March 30, 2017), Paul Bernard D. Causon (appointed effective April 1, 2017) and Ramon U. Agay, respectively.

Standard Arrangements

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

Other Arrangements

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

Employment Contract

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

Warrants or Options Outstanding

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

Security Ownership of Certain Record and Beneficial Owners

Security Ownership of Certain Records and Beneficial Owners of more than 5% of the Voting Securities of the Company as at September 30, 2018

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

Security Ownership of Directors and Management as at September 30, 2018

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

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

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

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

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

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

As of September 30, 2018, the aggregate number of shares owned of record by the directors of the Company is 3,500 common shares, which is less than 1% of the outstanding shares of the Company.

Voting Trust Holders of 5% or more

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

Changes in Control

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

Related Party Transactions

Related Party Transactions

SMC Global Power, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of September 30, 2018 and December 31, 2017:

(in thousands)	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	**2018**	**₱360,231**	**₱549,077**	**₱98,839**	**₱18,821**	On demand or	Unsecured;
	2017	215,004	664,262	87,697	9,273	30 days;	no impairment
						non-interest bearing	
	2018	**-**	**-**	**135,280**	**-**	More than 1 year;	Unsecured;
	2017	-	-	61,903	-	non-interest bearing	no impairment
	2018	**-**	**131,570**	-	-	More than 1 year;	Unsecured
	2017	-	-	-	-	Interest bearing	
Entities Under Common Control	**2018**	**2,005,402**	**371,286**	**2,635,216**	**299,575**	On demand or	Unsecured;
	2017	2,365,748	1,134,950	741,814	483,990	30 days;	no impairment
						non-interest bearing	
	2018	**-**	**-**	**-**	**492**	More than 1 year;	Unsecured;
	2017	-	-	-	492	non-interest bearing	
Associates	**2018**	**741,509**	**8,005**	**130,120**	**29,986**	On demand or	Unsecured;
	2017	902,864	-	98,556	29,643	30 days;	no impairment
						non-interest bearing	
	2018	**9,960**	**-**	**250,547**	**-**	9 years;	Unsecured;
	2017	13,458	-	250,603	-	Interest bearing	no impairment
Joint Venture	**2018**	**18,950**	**86,700**	**2,096**	**-**	30 days;	Unsecured;
	2017	24,183	416,058	1,937	18,522	non-interest bearing	no impairment
	2018	**13,569**	**-**	**372,386**	**-**	92 days;	Unsecured;
	2017	64,797	-	635,163	-	interest bearing	no impairment
Associates of Entities Under Common Control	**2018**	**675,638**	**-**	**183,737**	**-**	30 days;	Unsecured;
	2017	850,515	23,880	133,236	-	non-interest bearing	no impairment
Others	**2018**	**1,292,711**	**-**	**389,908**	**1,041**	On demand or	Unsecured;
	2017	45,161	-	130,794	-	30 days;	no impairment
						non-interest bearing	
	2018	**₱5,117,970**	**₱1,146,638**	**₱4,198,129**	**₱349,915**		
	2017	₱4,481,730	₱2,239,150	₱2,141,703	₱541,920		

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

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

c. Amounts owed by a joint venture consist of interest-bearing loan granted and management fees charged to AHC by PVEI, included as part of “Trade and other receivables” account in the consolidated statements of financial position.

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

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

	September 30 2018	December 31 2017
Short-term employee benefits	₱61,788	₱81,537
Retirement cost	-	1,398
	₱61,788	₱82,935

Corporate Governance

Manual on Corporate Governance

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

Compliance and Monitoring System

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

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

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

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

Independent Directors

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

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

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

Board Committees

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

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

Audit and Risk Oversight Committee

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

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

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

Corporate Governance Committee

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

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

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

Related Party Transaction Committee

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

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

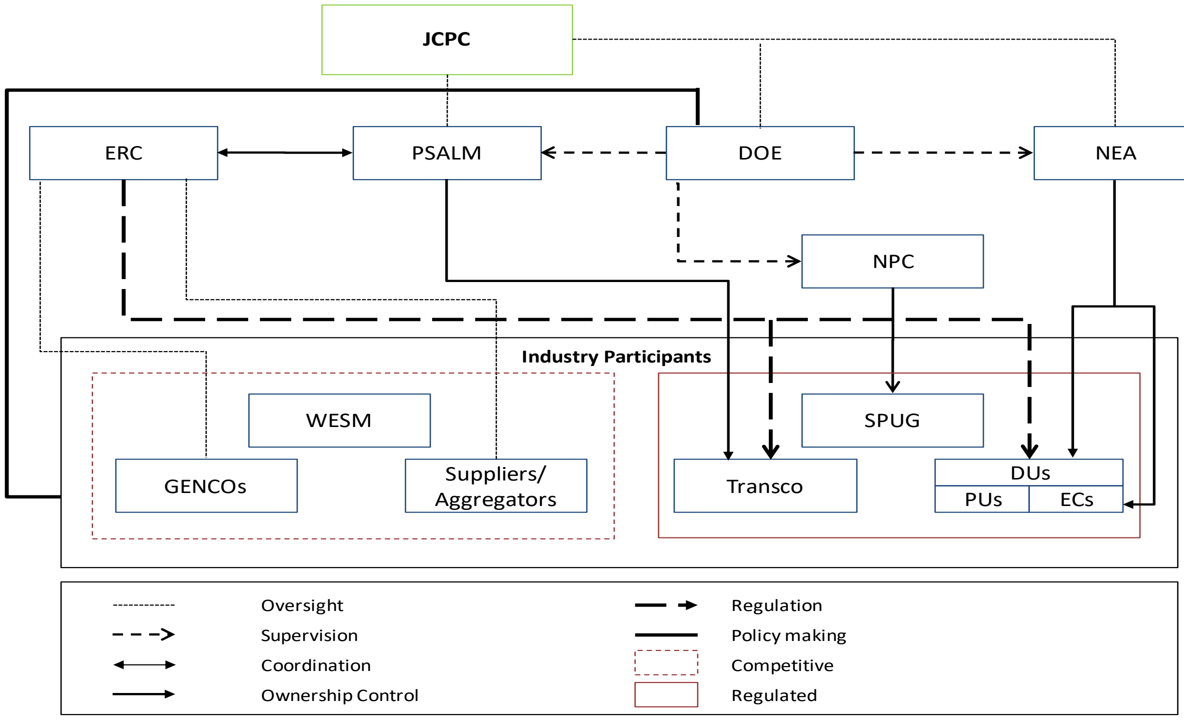
The incumbent members of the Related Party Transaction Committee are Josefina Guevarra-Salonga, Consuelo M. Ynares-Santiago, Jack G. Arroyo, Jr. Ferdinand K. Constantino, and Aurora T. Calderon.

Regulatory Framework

ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 ("**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 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 assure 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, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

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

The Generation Sector

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

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. "Open Access" is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while "Retail Competition" is defined as the provision of electricity to Contestable Market (which under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 kW) by persons licensed by the ERC to engage in the business of supply to electricity end-user through Open Access.

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

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

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be Contestable Customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the "**ERC RES Rules**"). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules.

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

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

As of September 30, 2018, PSALM has privatized 23 operating/generating power facilities and decommissioned four (4) generating power facilities, with a total combined capacity of 4,601.43 MW. Moreover, additional seven (7) power plants with total combined capacity of 3,607.52 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 600MW Limay combined cycle 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 connection to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

The Supply Sector

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

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

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

The following table summarizes the power supply and demand highlights in the Philippines for 2017 based on data from the DOE:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity (MW)	Peak demand (MW)
Luzon	15,743	14,429	11,444	10,054
Visayas....................	3,426	3,002	2,411	1,975
Mindanao.................	3,559	3,083	2,373	1,760
Philippines...............	22,730	20,515	14,458	13,789

Role of the ERC

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

Among the primary powers and functions of the ERC are:

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

Role of the DOE

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

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;

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

Role of the Joint Congressional Power Commission

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

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

Competitive Market Devices

WESM

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

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

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

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

There were 260 wholesale membership participants and 946 retail membership entities registered at the WESM based on its 2017 Annual Report.

The Philippine Electricity Market Corporation ("**PEMC**") and the Independent Electricity Market Operator of the Philippines Inc. ("**IEMOP**"), have executed the Operating Agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from PEMC to the IEMOP effective on 26 September 2018. With the signing of the Operating Agreement, IEMOP is poised to take over the market operations of the Wholesale Electricity Spot Market ("**WESM**"), a function that is currently performed by PEMC. Republic Act No 9136 requires PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on 06 February 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. Implementing the plan, IEMOP, a non-stock, non-profit corporation, led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, was incorporated and organized. Starting on 26 September 2018, IEMOP will run the electricity market and, among other things, manage the registration of market participants, receive generation offers, come out with market prices and dispatch schedules of the generation plants, and handle billing, settlement, and collections. Under the policy and regulatory oversight of the DOE and the ERC, PEMC will remain as governing body for WESM to monitor compliance by the market participants with the market rules.

WESM in Mindanao

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

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

RCOA

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

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

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

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

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

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

On February 21, 2017, the Philippine Supreme Court, acting on the petition filed by the Philippine Chamber of Commerce and Industry, San Beda College Alabang, Inc., Ateneo de Manila University, and Riverbanks Development Corporation, issued a temporary restraining order enjoining the DOE and ERC from implementing DOE Department Circular DC2015-060010 and ERC Resolution Nos. 05,10,11 and 28, all series of 2016, which are the rules and regulations implementing the RCOA.

In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the retail competition and open access.

Unbundling of Rates and Removal of Cross Subsidies

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

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

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

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

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

Reduction of Taxes and Royalties on Indigenous Energy Resources

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

Government Approval Process

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

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability, health, safety 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 (which measures the ability of the generation company to services its debts) 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, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

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

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

Registration under the BOI

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

Philippine Competition Act

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

On May 31, 2016, the PCC promulgated rules and regulations in order to effectively carry out the provisions of the Philippine Competition Act. Under the Rules, parties to a merger or acquisition are required to provide notification to the PCC when the following thresholds are met: (i) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent company of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent company controls, directly or indirectly, exceeds ("**Size of Person**") ₱1,000,000,000; and (ii) the value of the transaction ("**Size of Transaction**") exceeds ₱1,000,000,000. Under PCC Advisory 2019-001, effective March 1, 2019, the threshold in relation to the Size of Person was increased to ₱5,600,000,000, and the threshold for the Size of Transaction was increased to ₱2,200,000,000. However, these revised threshold amounts do not apply to mergers or acquisitions pending review by the PCC, notifiable transactions consummated before March 1, 2019, and transactions already subject of a decision by the PCC.

In addition, beginning on March 1, 2019, and for every subsequent year, the notification thresholds will be indexed based on the official estimates by the Philippine Statistics Authority of the nominal GDP growth for the previous calendar year rounded up to the nearest hundred millions.

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.

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 Eleventh Regular Foreign Investment Negative List (the "**Negative List**"). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

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

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

- a citizen of the Philippines;

- a domestic partnership or association wholly-owned by citizens of the Philippines;

- a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;

- a corporation organized abroad and registered to do business in the Philippines under the Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or

- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

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

In the 2014 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 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.

Environmental Matters

Environmental Compliance Overview

SMC Global Power applies the same focus and resources on operational excellence in its portfolio of coal power plants as with its environmental compliance. Efficient emission mitigation begins with a dynamic fuel preparation process that ensures coal fineness thru the use of reliable and versatile coal milling and grinding equipment. SMC Global Power plans to use [dynamic classifiers to further improve coal fineness] in the future. This would allow more efficient burning of coal (reducing NOx) and the use of lower calorific value ("**CV**") coal with lower sulfur content (reducing SOx). High CV coal with high sulfur content inherently does not only have higher emissions but are also significantly more expensive.

In addition to standard environmental control facilities customarily found in modern coal fired power plants such as enclosed coal conveyor and storage systems, ash storage systems, waste water treatment systems and air pollution and smoke stack systems, SMC Global Power's power plants have the following environmental control equipment and features that ensure that its NOx, SOx and particulate matter emissions within and below applicable local limits and emission limits set by the World Bank:

- CFB technology (used in SMC Global Power's greenfield power plants, Limay and Davao) operate the boilers at relatively lower pressure and temperatures (below 800 degrees centigrade) compared to PC technology. This results in better combustion and lower NOx and material particulates.

- Limestone injection to the fuel as it goes to the boiler is used for SMC Global Power's Plants to further reduce their SOx and particulate matter emissions.

- Unit 3 of Masinloc will use Supercritical boiler technology which, relative to an ordinary PC boiler (subcritical), has a significantly better combustion process resulting to a much-improved heat rate of coal – meaning less coal is required to produce a megawatt of electricity. This also allows the use of lower CV and lower sulfur coal, which is a key factor to lower SOx emissions.

- For Sual and Masinloc PC units, SMC Global Power uses Flue Gas Desulfurization ("**FGD**") equipment that can remove up to 90% of the SOx and particulate matter in the flue gas emissions of these plants. The FGDs use limestone and seawater to scrub SOx and particulate matter from the flue gases.

- For the greenfield plants, SMC Global Power uses Electrostatic Precipitators ("**ESP**") to remove particulate matter such as dust and soot, thru an electrostatic charge that captures these materials from the flowing gases on their way out the smoke stack.

- SMC Global Power conducts regular meetings with the IPP of the Sual Power Plant to ensure the Plant's fuel efficiency and compliance to environmental standards.

- For the Masinloc PC Units, SMC Global Power has reduced the CV and sulfur content of coal used from 6,100 kcal and 0.5% to only 5,500 kcal and 0.25%, respectively. This is accomplished without derating the power output of the units as a result of a recent retrofit work done on Unit 2 and heavy regular maintenance of Unit 1 that have retained and even improved the heat rate of these Units.

SMC Global Power also plans to explore the use of Catalytic Reduction Technology on its PC Plants to further improve its NOx emissions. This is an advanced active emission control technology that injects a liquid reductant agent thru a special catalyst which is predominantly ammonia, into the flue gases to capture and remove NOx emissions.

SMC Global Power closely monitors and publishes its emission data on a weekly basis on its greenfield power plants, Limay and Davao, and reviewed by both the DOE and the DENR. These power plants have emission levels that are less than 50% of the applicable local and World Bank emission limits.

Environmental Regulation

The operations of the businesses of SMC Global Power are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

EISS Law

The Philippine Environmental Impact Statement System (the "**EISS Law**") established under Presidential Decree No. 1586, which is implemented by the DENR, is the general 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. In general, only projects that pose potential significant impact on the environment shall be required to secure an ECC. The proponent of a project for which an ECC is issued and determined by the DENR to pose a significant public risk or necessitate rehabilitation or restoration shall be required to establish an environmental guarantee fund. Such fund is intended to meet any damage caused by, as well as any rehabilitation and restoration measures in connection with, the said project.

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 is considered environmentally critical projects for which an EIS and an ECC are mandatory.

The Clean Water Act

The Clean Water Act (Republic Act No. 9275) 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 (Republic Act No. 8749) 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 seeks 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 industrial establishments. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit.

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.

Philippine Taxation

On 1 January 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN**") took into effect. The TRAIN amended provisions of the Tax Code including provisions on documentary stamp tax, tax on interest income and other distributions, capital gains tax on the sale and disposition of securities, estate tax, and donor's tax.

Taxation of Interest

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and resident aliens from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

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

Given the above, all Bondholders are required to provide the Issuer through the Paying Agent their valid Tax Identification Numbers issued by the BIR.

Tax-Exempt Status or Entitlement to Preferential Rate

Bondholders who are exempt from or are entitled to preferential rate on final withholding tax on interest income may avail of such exemption or preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the Issue Manager, Underwriter and Bookrunner (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(i) a BIR certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR addressed to the Applicant confirming the exemption;

(ii) with respect to tax treaty relief:

  (a) for initial interest due, 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief ("**CORTT**") Form or the prescribed certificate of residence of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and/or 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative); and

  (b) for subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder/Registrar to the Issuer no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto;

(iii) a duly notarized undertaking, in the prescribed form, executed by 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 the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e., Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent:

  (a) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificates or preferential rate entitlement;

  (b) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or

  (c) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential rate, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and

(iv) such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty relief, which shall include a duly accomplished CORTT Form or the prescribed certificate of residency of their country together with Part I and II of the CORTT Form, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines to support the applicability of a tax treaty relief; provided that the Issuer shall have the exclusive discretion to decide whether the documents submitted are sufficient for the purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; 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 (or with reduced rates, as the case may be), subject to the submission by the Bondholder claiming the benefit of any exemption or preferential rate of reasonable evidence of such exemption or preferential rate treatment to the Registrar and Paying Agent.

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

Value-Added Tax

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term “gross receipt” means gross selling price less acquisition cost of the Bonds sold.

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

Gross Receipts Tax

Bank and non-bank financial intermediaries performing quasi-banking functions 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%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the 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 of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions 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 by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the original issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 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.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 0% to 35% effective January 1, 2018 until 31 December 2022 and 0% to 35% effective January 1, 2023 for individuals or 30% for domestic and foreign corporations, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, 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 bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the Bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a fixed rate of 6%. A Bondholder shall be subject to donor's tax at the rate of 6% based on the total gifts in excess of ₱250,000 exempt gift made during the calendar year, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and donor's tax, in respect of the Bonds, shall not be collected (i) 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 (ii) 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.

In case the securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Documentary Stamp Tax

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

Independent Auditors and Counsel

LEGAL MATTERS

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

INDEPENDENT AUDITORS

R.G. Manabat & Co., the independent auditors, audited the financial statements of the Company as of and for the years ended December 31, 2017, 2016 and 2015, which are all included in the Prospectus. R.G. Manabat & Co. has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

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

The aggregate fees billed by R.G. Manabat & Co. amounted to ₱9.6 million, ₱6.2 million, and ₱3.6 million and in 2017, 2016, and 2015 respectively. Said fees include compensation for audit services and other related services such as review and agreed-upon procedures. There were no fees paid for accounting, compliance, advisory, planning and any other form of tax. There were no other fees paid to the independent auditors other than for the above-described services.

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

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

Financial Information

The following pages set forth the audited financial statements of SMC Global Power as at December 31, 2017, 2016 and 2015 and for the nine months ended September 30, 2018 and 2017.