



SMC Global Power Holdings Corp.

155 EDSA, Wack-Wack, Mandaluyong City, Philippines

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

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

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

The date of this Prospectus is December 8, 2017

SMC Global Power Holdings Corp.

155 EDSA, Wack-Wack, Mandaluyong City, Philippines

Telephone Number: (632) 702 4500

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

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

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

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

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

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

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

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

The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and Offer Supplement and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant

tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 December [●], 2017, affiant exhibiting to me his
Philippine Passport with No. EC3542718 issued on February 27, 2015, at DFA-Manila, Philippines.

Doc. No. : _____;
Page No. : _____;
Book No. : _____;
Series of 2017.

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.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS	8
DEFINITION OF TERMS	9
EXECUTIVE SUMMARY	18
SUMMARY OF FINANCIAL INFORMATION	22
SUMMARY OF THE OFFERING	26
RISK FACTORS AND OTHER CONSIDERATIONS	27
USE OF PROCEEDS	45
DETERMINATION OF OFFER PRICE	46
PLAN OF DISTRIBUTION	47
DESCRIPTION OF THE BONDS	48
DESCRIPTION OF BUSINESS	49
TRANSACTIONS WITH RELATED PARTIES	79
DESCRIPTION OF PROPERTIES	80
CERTAIN LEGAL PROCEEDINGS	81
MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	85
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION	87
MANAGEMENT AND CERTAIN SECURITY HOLDERS	105
EXECUTIVE COMPENSATION	110
SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS	111
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	115
DESCRIPTION OF DEBT	116
CORPORATE GOVERNANCE	117
REGULATORY FRAMEWORK	120
PHILIPPINE TAXATION	134
INDEPENDENT AUDITORS AND COUNSEL	138
FINANCIAL INFORMATION	139

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

DEFINITION OF TERMS

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

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

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

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

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

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

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

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

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

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

EXECUTIVE SUMMARY

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

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

BUSINESS

SMC Global Power is a holding company which owns subsidiaries that are primarily engaged in the generation, supply and sale of electric power in the Philippines. SMC Global Power, together with its subsidiaries, is one of the largest power companies in the Philippines, controlling 3,063 megawatts (“MW”) of combined capacity as of June 30, 2017 and which benefits from diversified fuel sources, including natural gas, coal and hydroelectric. Based on the installed generating capacities under Energy Regulatory Commission of the Philippines (“ERC”) Resolution No. 05, Series of 2017, SMC Global Power, through its Independent Power Producer Administrator (“IPPA”) and Independent Power Producer (“IPP”) subsidiaries, has a 15% market share of the power supply of the National Grid, a 20% market share of the Luzon Grid and a 5% market share of the Mindanao Grid, in each case as of June 30, 2017¹. SMC Global Power entered the power industry in 2009 following the acquisition of IPPA rights in privatization auctions conducted by the Government. Under the IPPA business model, SMC Global Power, through its subsidiaries San Miguel Energy Corporation (“SMEC”), Strategic Power Devt. Corp. (“SPDC”), and South Premiere Power Corp. (“SPPC”), gained the right to sell electricity generated by the power plants owned and operated by the IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risk by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Wholesale Electricity Spot Market (“WESM”).

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

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

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

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

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

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

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

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

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

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

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

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

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

STRENGTHS

SMC Global Power believes its competitive strengths are the following:

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

STRATEGIES

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

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

CORPORATE INFORMATION

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

SUMMARY OF FINANCIAL INFORMATION

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

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

CONSOLIDATED STATEMENT OF INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

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

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

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

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

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

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

CALCULATION OF EBITDA

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

	For the years ended December 31,			For the six months ended June 30,	
	2014	2015	2016	2016	2017
	(in millions of ₱)			(in millions of ₱)	
Net income	9,833.1	690.8	5,390.7	5,546.4	3,924.7
Add:					
Income tax expense	2,352.0	2,215.7	3,677.9	2,526.6	2,178.5
Finance cost	12,582.8	12,385.5	12,342.3	5,748.0	5,863.3
Interest income	(539.0)	(395.9)	(196.6)	(109.2)	(102.1)
Depreciation	5,237.0	5,271.5	6,338.7	2,688.0	2,699.3
Less:					
Foreign exchange gains (loss) . . .	(808.3)	(7,570.9)	(6,910.1)	56.0	(1,718.2)
Aggregate fixed payments made to PSALM ⁽¹⁾	20,124.0	22,280.1	23,873.3	11,839.8	12,341.5
Gain on sale of property, plant and equipment.	-	-	114.4	-	-
EBITDA ⁽²⁾	10,150.2	5,458.4	10,475.4	4,504.0 ⁽³⁾	3,940.4 ⁽³⁾

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

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

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

SUMMARY OF THE OFFERING

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

RISK FACTORS AND OTHER CONSIDERATIONS

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

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

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

RISKS RELATING TO SMC GLOBAL POWER

Increased competition in the Philippine power industry

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

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

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to a

downward adjustment of tariffs, and the business, financial performance and results of operations of SMC Global Power could be adversely affected. To the extent that distribution utilities or industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakers through its generation facilities would be adversely affected.

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

Disruptions in fuel supply

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

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

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

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

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

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

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

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

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

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

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

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

Development of greenfield power projects

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

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

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

Adverse effect of WESM price fluctuations

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

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

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

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

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

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

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

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

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

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

Non-renewal of or non-compliance with offtake agreements

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

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

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

Operating capacities of its power portfolio.

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

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

- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- planned and unplanned power outages due to maintenance, expansion and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits and approvals;
- opposition from local communities and special interest groups; and
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage and plant destruction.

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

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

Insurance coverage for generation plants.

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

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

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

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

No direct contractual and operational relationship.

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

Foreign exchange risk.

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

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

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

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

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

Variations in hydrological conditions and irrigation requirements.

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

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

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

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

Challenges in successfully implementing its growth strategy.

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

SMC Global Power is also contemplating several additional potential investments and acquisitions, but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market

and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected.

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

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

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

Availability of financing.

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

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

Significant finance lease obligations.

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

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

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

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

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

- require SMC Global Power, through its IPPA subsidiaries, to dedicate a substantial portion of its cash flow from operations to debt and other payment obligations, thereby decreasing the availability of its cash flow for business operations, including expansion and acquisitions;
- increase the vulnerability of the IPPA subsidiaries of SMC Global Power to general adverse economic and industry conditions; and
- prevent the IPPA subsidiaries of SMC Global Power from accessing credit or equity markets to satisfy its repayment obligations as they become due on favorable terms, or at all.

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

Dependence on the existence of transmission infrastructure.

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

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

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

Certain tax exemptions and tax incentives.

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

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

Government Regulation.

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

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

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

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

While the Company believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there can be no assurance that SMC Global Power and its subsidiaries will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held liable in any future litigation or proceedings relating to safety, health, mining and environmental matters, the costs of which could be material. In addition, safety, health, mining and environmental laws and regulations in the Philippines have become increasingly stringent. There can be no assurance that the adoption of

new safety, health, mining and environmental laws and regulations, new interpretations of existing laws, increased governmental scrutiny of safety, health, mining and environmental laws or other developments in the future will not result in SMC Global Power and its subsidiaries from being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade, supplement or relocate their facilities.

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

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

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

ERC Regulation of electricity rates of distribution utilities.

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

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

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

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

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

Trading on the WESM.

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

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

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

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

Possible conflicts of interest.

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

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

Dependence on the support of San Miguel Corporation.

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

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

Legal and other proceedings arising out of its operations.

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

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

RISKS RELATING TO THE PHILIPPINES

Political instability.

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

Most recently, the House of Representatives has conducted hearings on the impeachment complaints against Chief Justice Maria Lourdes Sereno who has been accused of culpable violation of the Constitution, corruption, other high crimes and betrayal of public trust.

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

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

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. Additionally there have been clashes with various separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in September 2013, a faction of

the Moro National Liberation Front allegedly led by Nur Misuari, a former governor of the Autonomous Region of Muslim Mindanao, staged an armed uprising in Zamboanga City. The incident resulted in, among others, hostage situations and renewed tension between the Philippine Armed Forces and the Moro National Liberation Front in the southern part of the country. In an operation to capture wanted international terrorist Zulkifli Bin Hir alias Marwan on January 25, 2015, 44 police commandos were killed in a 12-hour fire fight with two (2) Muslim rebel groups: Moro Islamic Liberation Front and Bangsamoro Islamic Freedom Fighters in the Southern Philippines. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

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

Territorial and other disputes with neighboring states.

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

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

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

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

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

Natural catastrophes.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the business operations of the Company. In particular, damage caused by natural catastrophes could result in 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 of dealing with such natural catastrophes and that the insurance coverage it currently maintains for its greenfield power plants will fully compensate it for all the damages and economic losses resulting from these catastrophes.

Management of risks related to the Philippines

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

RISKS RELATING TO THE BONDS

Suitability of Investment.

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

Liquidity.

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

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

The Bonds entail credit risk from Issuer.

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

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

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

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

Reinvestment.

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

Pricing

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

Retention of Ratings

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

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

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

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

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

USE OF PROCEEDS

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

DETERMINATION OF OFFER PRICE

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

PLAN OF DISTRIBUTION

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

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DESCRIPTION OF THE BONDS

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

DESCRIPTION OF BUSINESS

COMPANY OVERVIEW

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

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

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

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

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

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

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

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

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

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

On June 16, 2016, Meralco Powergen Corporation (“**MGen**”), a subsidiary of Meralco, and Zygnnet Prime Holdings, Inc. (“**Zygnnet**”) 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 Zygnnet each owns 49% and 2% equity interest in MPGC, respectively. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

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

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

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

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

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

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

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

Furthermore, to the extent viable and allowed under prevailing industry regulations, SMC Global Power is open to opportunities for vertical integration of its power business by expanding into businesses along the power sector value chain that complement its current power generation operations. In particular, SMC Global Power intends to pursue downstream integration by capitalizing on changes in the Philippine regulatory structure which allow the expansion into the

sale of power to a broader range of customers, including retail customers. With open access and retail competition already implemented, the RES license will allow SMC Global Power, through SMELC and SCPC, to enter into RSCs with Contestable Customers.

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

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

STRENGTHS OF THE COMPANY

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

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

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

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

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

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

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

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

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

Established relationships with world class partners. The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation (“KEPCO”) and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these well-established relationships

provide a strong foundation for its existing business and a platform of potential partners for future expansion.

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

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

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

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

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

SMC Global Power through its subsidiaries, SMCP and SCPC is in the process of completing the construction of two greenfield power plants, the Limay and Davao Greenfield Power Plants, with 750 MW of plants’ combined generation capacity commissioned in 2016 and 2017 and the last 150 MW is expected to be commissioned in 2018. In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong

position to leverage its relationships with its existing customers to service their expected increased electricity demand.

BUSINESS STRATEGIES OF THE COMPANY

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

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

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

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

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

has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations.

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

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

IPPA FRAMEWORK

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

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

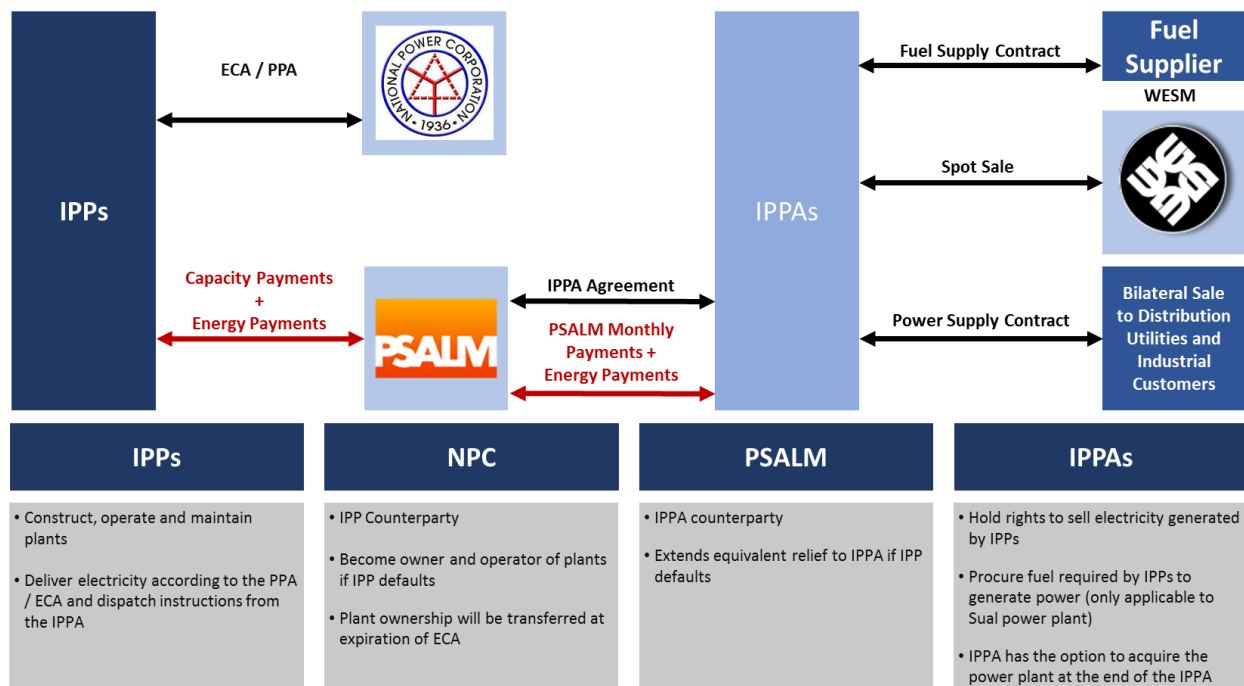
PSALM/NPC in turn, pays the IPPs capacity and energy payments based on their respective ECAs or PPAs. In some cases, IPPA Agreements provide the IPPA with the right to acquire ownership of the power plants or generation facilities at the end of the terms of the ECAs or PPAs. Under the IPPA Agreements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

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

and PSALM bears the force majeure risks to the power generation plants. The IPPA framework also permits an IPPA to assume the role of NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

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

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



IPPA Asset Transfer Process

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

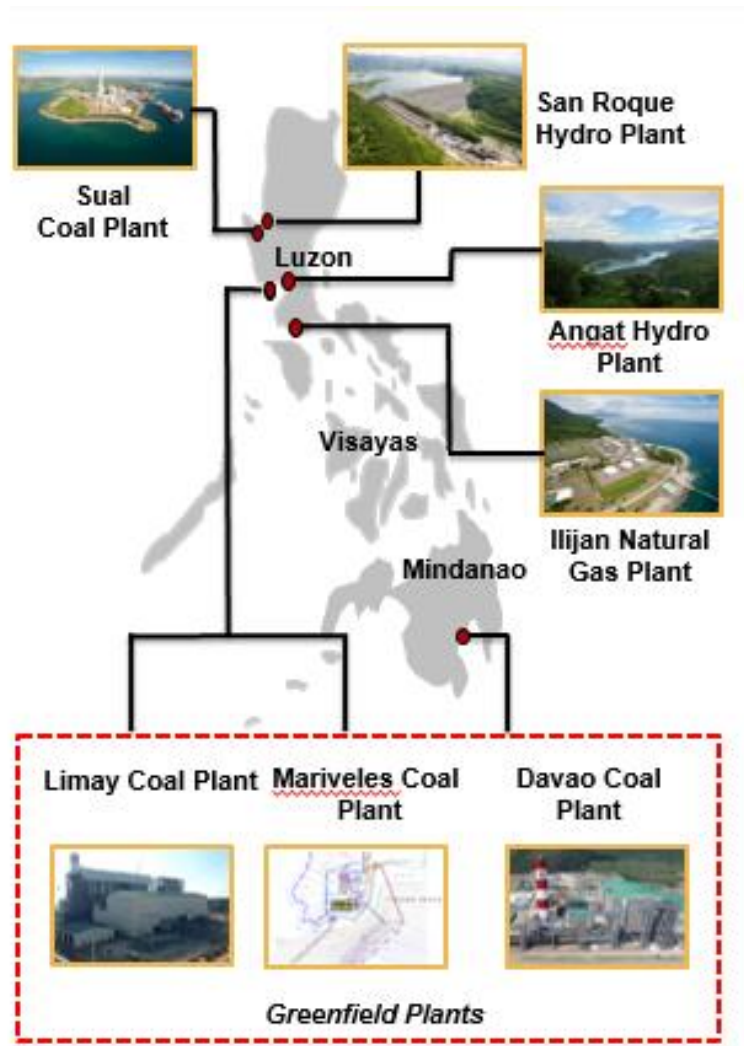
The IPPA framework effectively permits an IPPA to assume the role of the NPC as an offtaker of power generated by IPPs without affecting NPCs underlying agreements with the IPP.

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

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

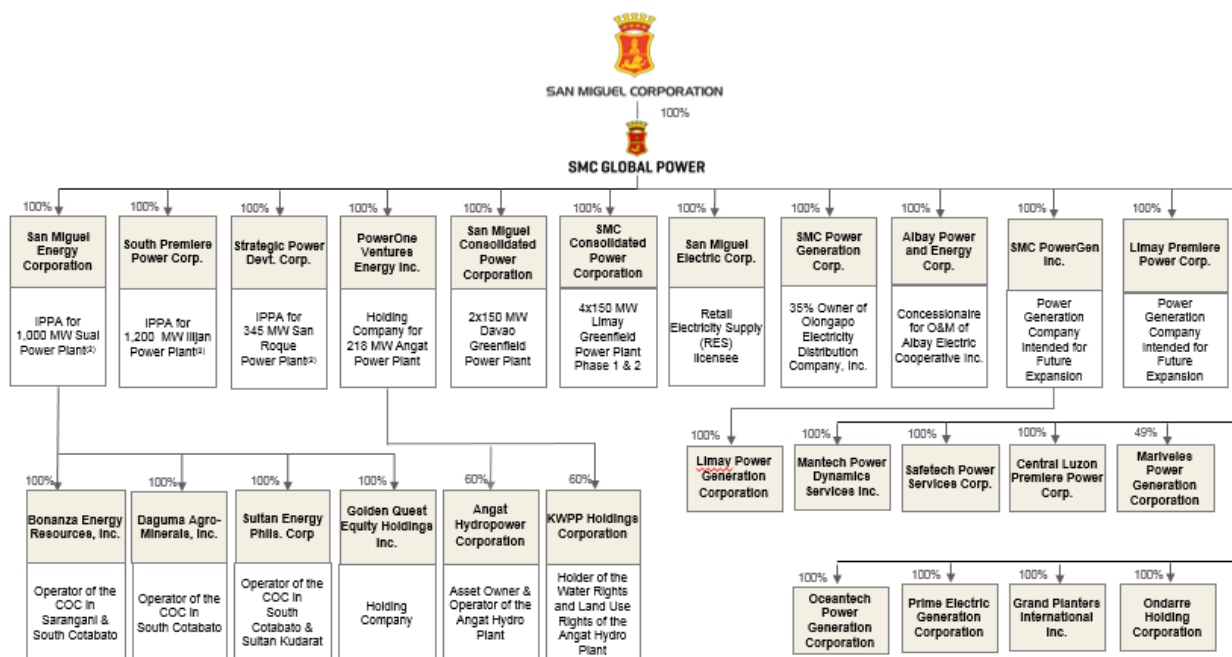
SMC GLOBAL POWER PORTFOLIO

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



CORPORATE STRUCTURE¹ / PROJECT CONSORTIUM

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



(1) As of the date of this Prospectus.

(2) SMC Global Power manages and controls the capacity of the plants under IPPA agreements with PSALM.

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

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

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

CORPORATE HISTORY AND MILESTONES

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

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

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

IPPA POWER PLANTS

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

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

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

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

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

(3) Through San Roque Power Corporation.

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

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

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

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

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

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

POWER GENERATION BUSINESS

Sual Power Plant

Background

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

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

Sual IPPA

Power Plant Capacity and Fuel Supply

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

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

Power Offtakers

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

Operations Review

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

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

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

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

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

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

Operations and Maintenance

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

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

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

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

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

In 2016, Unit 1 of the Sual Power Plant underwent 60 days major scheduled maintenance which occurs once every 5 years but requested for 14 days more extension. Unit 2, on the other

hand, is scheduled to undergo its 30-day scheduled maintenance in 2016 but the actual repair was only 20 days.

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

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

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

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

Power Transmission

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

San Roque Power Plant

Background

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

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

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

San Roque IPPA

Power Plant Capacity

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water

rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation (“SRPC”).

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

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

Operations Review

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

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

Water Rights

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

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

Operations and Maintenance

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

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

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

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

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

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

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

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

Power Transmission

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

Ilijan Power Plant

Background

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

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

Ilijan IPPA

Power Plant Capacity and Fuel Supply

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

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

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

Power Offtakers

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

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

Operations Review

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

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

Fuel Supply

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

Operations and Maintenance

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

The maintenance plan for the Ilijan Power Plant is agreed upon annually between SPPC, NPC, PSALM, NGCP and KEILCO. The maintenance plan includes scheduled inspections and overhauls, including scheduled periods of outage and details as to the personnel required to complete each inspection. Planned outages for maintenance are scheduled in such a way that only one unit is scheduled for shut down at any given time. The maintenance plan is established with consideration given to the dispatch requirements of SPPC and recommendations of the plant

manufacturer. KEILCO is required to execute the maintenance plan in accordance with the recommendations of the original equipment manufacturer and good utility practice. KEILCO performs periodic maintenance activities on the generating units of the Ilijan Power Plant during the course of the operations of the plant. The Ilijan ECA requires KEILCO to conduct an annual test to check the capacity of the generating units of the Ilijan Power Plant.

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

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

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

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

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

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

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

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

Power Transmission

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

ANGAT HYDROELECTRIC POWER PLANT (“AHEPP”)

Background

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

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

Fuel Supply and Water Rights

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

- water resources from water discharged through Auxiliary Units and through the spillway flows to the Ipo reservoir are used to supply 97.0% of the residential drinking water of Metro Manila; and
- water resources from water discharged through Main Units flows downstream to the Bustos reservoir are utilized for irrigation purposes.

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

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

Power Offtakers

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

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

Operations and Maintenance

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

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

LIMAY GREENFIELD POWER PLANT

Background

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

Heavy Industries and True North Manufacturing Services Corporation.

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

Power Offtakers

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

Fuel Supply

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

DAVAO GREENFIELD POWER PLANT

Background

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

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

Power Offtakers

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

Fuel Supply

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

DISTRIBUTION AND RETAIL SERVICES

Albay Power and Energy Corp. (“APEC”)

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

Retail Electric Supply

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

Coal Investments

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

The table below sets forth certain information regarding these assets.

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

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

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

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

SALES STRATEGY AND CUSTOMERS

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

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

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

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

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

EXPANSION PLANS

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

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

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the existing power supply shortage. The

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

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

Power Generation Capacity

Greenfield Power Plants

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

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

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

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

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

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

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

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

Acquisition of Existing Power Generation Capacity

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

COMPETITION

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

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

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

CUSTOMERS

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

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

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

COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

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

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

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

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

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

EMPLOYEES

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

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

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

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

RECENT DEVELOPMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

Amounts owed by an associate consists of interest bearing loan granted to OEDC, included as part of "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position, and management fees charged to AHC by PVEI.

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

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

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

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

DESCRIPTION OF PROPERTIES

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

CERTAIN LEGAL PROCEEDINGS

Petition to stop the imposition of the increase in generation charge

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

ERC Order voiding WESM prices

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

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

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

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

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

Ilijan IPPA Agreement Dispute

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

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

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

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

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

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

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

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

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

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

Complaints for estafa and corruption against PSALM officers

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of Republic Act No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice ("DOJ"), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US\$60 million. The case is still pending with the DOJ as of June 30, 2017.

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

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019 before the DOJ against a certain officer of PSALM, and certain officers of TPEC and TeaM Energy, relating to the illegal grant of the so-called "excess capacity" of the Sual

Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for (a) Plunder; (b) Violation of Sec. 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Sec. 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

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

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

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

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

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

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

Refund of system loss charge

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

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

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

Validity of Concession Agreement with ALECO

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

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

MARKET PRICE AND DIVIDENDS ON COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

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

Stockholders

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

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

Dividend Policy

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

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

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

2016

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

2015

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

2014

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

RESULTS OF OPERATIONS

Description of Certain Components of Our Results of Operations

Sale of Power and Electricity

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

Cost of Power Sold

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

purchased from external sources, which represents the cost of purchasing power from the WESM and other generators.

Operating Expenses

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

Other Income (Charges)

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

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

Income Tax Expense

The income tax provision of SMC Global Power consists of:

- Current income tax
- Deferred income tax

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

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

Results of Operations — Period to Period Comparison

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

Revenues

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

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

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

Cost of Power Sold

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

Operating Expenses

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

Operating Income

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

Other Income (Charges)

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

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

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

Income Tax Expense

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

Net Income

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

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

Revenues

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

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

Cost of Power Sold

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

Operating Expenses

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

Operating Income

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

Other Income (Charges)

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

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

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

Income Tax Expense

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

Net Income

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

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

Revenues

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

Cost of Power Sold

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

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

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

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

Operating Expenses

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

Other Income (Charges)

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

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

Income Tax Expense

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

Net Income

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

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

Revenues

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

Cost of Power Sold

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

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

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

Operating Expenses

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

Operating Income

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

Other Income (Charges)

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

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

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

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

Income Tax Expense

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

Net Income

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

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

Revenues

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

Cost of Power Sold

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

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

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

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

Operating Expenses

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

Operating Income

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

Other Income (Charges)

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

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

Income Tax Expense

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

Net Income

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

Financial Position (Material Changes Per Line of Account)

June 30, 2017 compared to December 31, 2016

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

- a. The increase in cash and cash equivalents by ₱24,986 million was mainly due to the proceeds from the twelve-year term loan availed by SCPC on June 28, 2017, amounting to ₱42,000 million, which was partly used to pay the US\$360 million bridge loan availed in May 2017.
- b. Inventories decreased by ₱546 million due to lower coal ending inventory for Sual and Limay Greenfield Power Plants.

- c. Decrease in prepaid expenses and other current assets by ₱2,048 million is due to the application of LPPC's input VAT against the output VAT recognized on the sale of its 300MW power plant project to SCPC.
- d. Increase in property, plant and equipment by ₱2,458 million is attributed to the net effect of additional costs incurred for the construction of the greenfield power plants and additional depreciation recognized by the IPPAs for the period.
- e. Increase in other noncurrent assets by ₱2,320 million is mainly due to the input VAT recognized by SCPC on its acquisition of the 300MW power plant project from LPPC.

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

- a. SMC Global Power availed of a US\$200 million (₱10,040 million) short-term loan with a local bank.
- b. Accounts payable and accrued expenses increased by ₱218 million due to higher energy fees of SPPC and higher distribution wheeling service charges following the increase in RES customers of SMELC.
- c. The increase in income tax payable by ₱143 million mainly pertains to SMEC's additional income tax due for the second quarter of 2017.
- d. Long-term debt increased due to the net effect of the following: (i) availment of ₱42,000 million long-term debt by SCPC in June 2017, which was partly used to pay its US\$360 million bridge loan, (ii) revaluation of the outstanding US\$400 million loan of SMC Global Power at the foreign exchange closing rate of P50.47 as of June 30, 2017, and (iii) payment of the US\$200 million loan, out of the US\$700 million long-term debt of SMC Global Power.
- e. Deferred tax liabilities increased by ₱704 million mainly due to the temporary difference arising from the actual monthly fixed payments to PSALM over the finance lease liability-related expenses for the period of SPPC and SPDC.

Equity

The increase/decrease in equity is due to:

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

December 31, 2016 compared to December 31, 2015

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

- a. Cash and cash equivalents decreased by ₱750 million due to the net effect of the following transactions: (i) payments to PSALM for the monthly fixed fees of the IPPAs, (ii) payments to contractors/suppliers for the construction of the greenfield power plants, (iii) additional equity infused to AHC and MPGC, (iv) cash dividends and distribution paid to common shareholders and USCS holders, respectively, (v) proceeds of the US\$359 million loan availed by SCPC from its US\$400 million, 7-year term loan, and (vi) proceeds from the issuance of ₱15,000 million Bonds.
- b. Increase in trade and other receivables by ₱3,869 million primarily represents the receivable recognized by SPI for the unpaid balance on the sale of the Limay Cogeneration Plant that is collectible in July 2017.
- c. Inventories increased by ₱1,009 million due to additional coal inventory maintained for the testing and commissioning of 2 units of the greenfield power plants during the year. Moreover, coal prices for the Sual Power Plant were on an upward trend in the last quarter of 2016.
- d. Increase in prepaid expenses and other current assets by ₱2,614 million is attributable to: (i) higher input VAT on purchases of goods and services for the construction of the greenfield power plants and (ii) the creditable withholding tax recognized on the sale of the Limay Cogeneration Plant.
- e. Investments and advances increased by ₱5,633 million primarily on account of the additional investments made during the year by SMC Global Power and PVEI in MPGC and in AHC, respectively.

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

- f. Net decrease in property, plant and equipment by ₱8,965 million resulted from the sale of Limay Cogeneration Plant and the additional depreciation recognized in 2016 which were partially offset by the additional costs incurred for the construction of the greenfield power plants.
- g. Other noncurrent assets is lower by ₱1,227 million compared to last year's balance due to SPI's settlement of its long-term debt using in part the funds from its trust accounts (recorded under "Restricted cash" account) and the application of SPI's noncurrent input VAT to the output VAT recognized on the sale of its power plant.

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

- a. Accounts payable and accrued expenses increased by ₱4,888 primarily due to the additional payable to contractors/suppliers recognized in relation to construction of the greenfield power plants.
- b. Increase in long-term debt by ₱7,716 million is due to the net effect of the following: (i) US\$359 million drawn by SCPC from its US\$400 million, 7-year term loan, to finance the construction of the Limay Greenfield Power Plant (Phase I), (ii) ₱15,000 million bonds issued and listed in July 2016 – the proceeds of which were used to refinance the US\$300 million short-term loan availed as bridge loan facility for the redemption of the US\$300 million bonds which matured in January 2016, and (iii) SPI's pre-settlement of the remaining balance of its ₱13,800 million long-term debt.
- c. Deferred tax liabilities increased by ₱902 million mainly due to the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2016.
- d. Increase in noncurrent liabilities by ₱73 million primarily relates to the increase in retirement liability and higher bill deposits from new customers.

Equity

The increase/decrease in equity is due to:

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

December 31, 2015 compared to December 31, 2014

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

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

- b. Inventories declined by ₱102 million primarily due to lower coal prices for the Sual and Limay Cogeneration Plants and lower coal inventory level maintained for the Sual Power Plant due to the extended major maintenance outage of its Unit 2 in December 2015.
- c. Increase in prepaid expenses and other current assets by ₱5,932 million is attributed to: (i) additional input VAT on purchases of goods/services relating to the construction of the power plants, (ii) prepaid rent of Limay plant, and (iii) prepayment of local business taxes.
- d. Increase in property, plant and equipment by ₱27,320 million resulted from the ongoing construction of the Davao and Limay Greenfield Power Plants and the construction of petcoke facility and limestone crusher for the Limay Co-Gen Power Plant.

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

- a. Long-term debt increased by ₱9,895 million on account of the final drawdown of US\$200 million from the US\$700 million, 5-year term loan, by SMC Global Power for the financing of the construction of greenfield power plants and for general corporate purposes.
- b. Income tax payable decreased by ₱52 million due to lower operating income posted in 2015 brought by lower bilateral volume and lower average realization prices.
- c. Deferred tax liabilities increased by ₱840 million mainly due to the recognition by SPPC and SPDC of deferred income tax expense on the temporary difference between the actual monthly payments to PSALM over the finance lease liability-related expenses for 2015.
- d. Other noncurrent liabilities decreased by ₱537 million because of SMEC and SPDC's settlement of its monthly dues to WESM and the transfer of the balance to current liabilities as of December 2015. The monthly dues relate to the 24-month special payment arrangement (from June 2014 to May 2016) agreed with PEMC, resulting from the adjustment of the November and December 2013 Luzon WESM prices as ordered by the ERC.

Equity

The increase/decrease in equity is due to:

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

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

Net cash flows used in investing activities included the following:

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

Net cash flows used in financing activities included the following:

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

Key Performance Indicators

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

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

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

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

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

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

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

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

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

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

Liquidity and Indebtedness

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

Contractual Obligations / Liabilities

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

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

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

* Excluding statutory payables

Capital Resources

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

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

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

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

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

Capital Expenditures

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

Off-Balance Sheet Arrangements

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

Financial Risk and Capital Management Objectives and Policies

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

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

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

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

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

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

The Board of Directors constituted the Audit Committee (now Audit and Risk Oversight Committee) to assist the Board of Directors in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the Board of Directors.

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

Interest Rate Risk

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

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

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

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

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

Foreign Currency Risk

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

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

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

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

Liquidity Risk

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

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

The Company constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

Credit Risk

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

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

Other Matters

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

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

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

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

There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation and there were no changes in the contingent liabilities and contingent assets since the last annual reporting date.

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

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

MANAGEMENT AND CERTAIN SECURITY HOLDERS

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

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

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

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

Ferdinand K. Constantino is a Director of SMC Global Power since August 31, 2010, the Vice Chairman of the Board of SMC Global Power since September 2, 2011, and was its Treasurer from August 31, 2010 to September 1, 2011. He is a member of the Executive Committee of SMC Global Power since September 2, 2011. He is also a member of the Corporate Governance Committee, Audit and Risk Oversight Committee and Related Party Transaction Committee of SMC Global Power. He is also a Director of SMC since May 31, 2010 and the Senior Vice President, Chief Finance Officer and Treasurer of SMC. He also holds, among others, the following positions in other listed and public companies: Director of Top Frontier Investment Holdings, Inc., San Miguel Brewery Inc., and Petron Malaysia Refining & Marketing Bhd (a

company publicly listed in Malaysia). He is also the President of Anchor Insurance Brokerage Corporation; Director of San Miguel Yamamura Packaging Corporation, San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served SMC as Chief Finance Officer of the San Miguel Beer Division; Chief Finance Officer and Treasurer of San Miguel Brewery Inc.; Director of San Miguel Pure Foods Company, Inc.; Director of San Miguel Properties, Inc.; and Chief Finance Officer of Manila Electric Company. He holds directorships in various domestic and international subsidiaries of SMC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT EMPLOYEES

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

FAMILY RELATIONSHIPS

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

INVOLVEMENT OF DIRECTORS AND OFFICERS IN CERTAIN LEGAL PROCEEDINGS

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

EXECUTIVE COMPENSATION

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

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

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

Standard Arrangements

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

Other Arrangements

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

Employment Contract

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

Warrants or Options Outstanding

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

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

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

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

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

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

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

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

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

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

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

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

Voting Trust Holders of 5% or more

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

Changes in Control

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

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

DESCRIPTION OF DEBT

₱15 Billion Bonds

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

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

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

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

US Dollar and Peso-denominated Loans

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

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

CORPORATE GOVERNANCE

Manual on Corporate Governance

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

Compliance and Monitoring System

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

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

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

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

Independent Directors

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

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

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

Board Committees

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

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

Audit and Risk Oversight Committee

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

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

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

Corporate Governance Committee

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

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

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

Related Party Transaction Committee

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

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

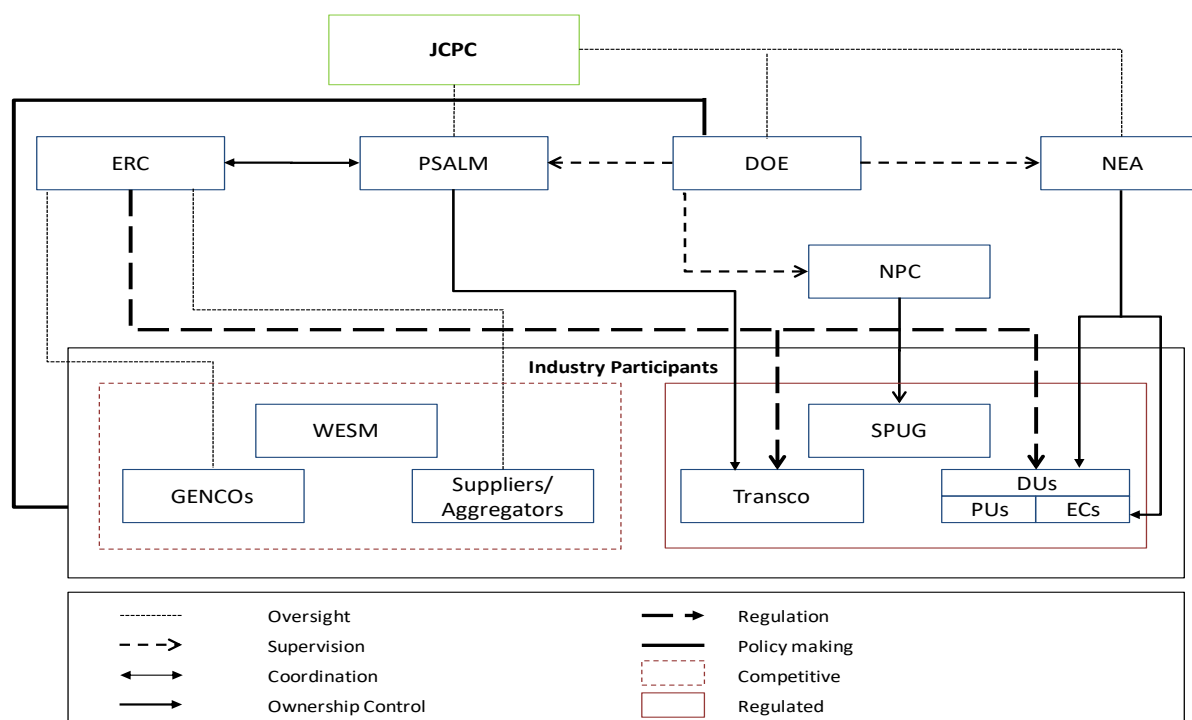
The incumbent members of the Related Party Transaction Committee are Josefina Guevarra-Salonga, Consuelo M. Ynares-Santiago, Jack G. Arroyo, Jr. Ferdinand K. Constantino, and Aurora T. Calderon.

REGULATORY FRAMEWORK

ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

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

Industry structure under the EPIRA:



Note:

DUs: Distribution Utilities

ECs: Electric Cooperatives

GENCOs: Any entity authorized by the ERC to operate electricity generation facilities

JCPC: Joint Congressional Power Commission

PUs: Production Utilities

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

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

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

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

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

Reorganization of the Electric Power Industry

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

The Generation Sector

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

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

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

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which

consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

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

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

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

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

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

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

The Transmission Sector

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

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

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

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

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

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operation of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity;
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and

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

The Distribution Sector

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

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

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

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

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

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

The Supply Sector

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

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

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

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

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

(1) Curtailed demand for Mindanao Grid.

Role of the ERC

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

Among the primary powers and functions of the ERC are:

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

Role of the DOE

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

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

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

Role of the Joint Congressional Power Commission

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

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

Competitive Market Devices

WESM

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

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

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

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

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

WESM in Mindanao

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

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

RCOA

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

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

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

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

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

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may

be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

Unbundling of Rates and Removal of Cross Subsidies

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

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

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

Implementation of the Performance-Based Regulation (“PBR”)

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

Reduction of Taxes and Royalties on Indigenous Energy Resources

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

Government Approval Process

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

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

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

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

Registration under the BOI

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

Philippine Competition Act

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

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

Local Government Code

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

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

Labor and Employment

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

Social Security System, PhilHealth and the Pag-IBIG Fund

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

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

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

Environmental Matters

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

critical or located in an environmentally critical area and processes all applications for an ECC.

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

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

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

The Clean Water Act

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

The Clean Air Act

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

The Renewable Energy Act

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

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

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

Other Environmental Laws

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

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

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

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

Foreign Investment Act of 1991 (“FIA”)

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

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

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

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

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

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

PHILIPPINE TAXATION

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

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

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

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

Taxation of Interest

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

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

Tax-Exempt Status

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

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

Value-Added Tax

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

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

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

Gross Receipts Tax

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

- Maturity period is five years or less 5%
- Maturity period is more than five years 1%

In case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

Documentary Stamp Tax

A documentary stamp tax is imposed upon the original issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200.00, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

Taxation on Sale or Other Disposition of the Bonds

Income Tax

The Bondholder will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such basis of the Bondholders in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Bondholder has held the Bonds as capital assets.

The term “capital assets” means property held by the taxpayer (whether or not connected with his trade or business), but does not include stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or property used in the trade or business, of a character which is subject to the allowance for depreciation, or real property used in trade or business of the taxpayer.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months. If the capital asset has been held for not more than 12 months, the individual taxpayer must recognize 100% of the capital gain or loss upon the sale or exchange of a capital asset. An individual taxpayer who sustains in any taxable year a net capital loss, such loss (in an amount not in excess of the net income for such year) shall be treated in the succeeding taxable year as a loss from the sale or exchange of a capital asset held for not more than 12 months. The Tax Code further provides that losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty, subject to the filing of a tax treaty relief application with the Philippine Bureau of Internal Revenue, or if they are sold outside the Philippines.

Estate and Donor's Tax

The transfer of the Bonds by succession, whether the deceased is a Philippine resident or non-Philippine resident, shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000.00. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000.00 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not, in reference to the donor, a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship. The tax shall apply whether the transfer is in trust or otherwise, or whether the gift is direct or indirect.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

Unless a certification from the BIR that the estate or donor's taxes have been paid is shown, there shall be no transfers to any new owner in the books of the Bond Issuer of any bond by way of succession or donation.

INDEPENDENT AUDITORS AND COUNSEL

LEGAL MATTERS

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

INDEPENDENT AUDITORS

R.G. Manabat & Co., the independent auditors, audited the financial statements of the Company as of and for the years ended December 31, 2016, 2015 and 2014, which are all included in the Prospectus. R.G. Manabat & Co. has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

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

The aggregate fees billed by R.G. Manabat & Co. amounted to ₱6.2 million, ₱3.6 million, ₱ 4.2 million and in 2016, 2015 and 2014, respectively. Said fees include compensation for audit services and other related services such as review and agreed-upon procedures. There were no fees paid for accounting, compliance, advisory, planning and any other form of tax. There were no other fees paid to the independent auditors other than for the above-described services.

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

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

FINANCIAL INFORMATION

The following pages set forth the audited financial statements of SMC Global Power as at December 31, 2016, 2015 and 2014 and for the six months ended June 30, 2017 and 2016.