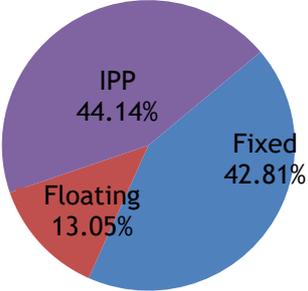
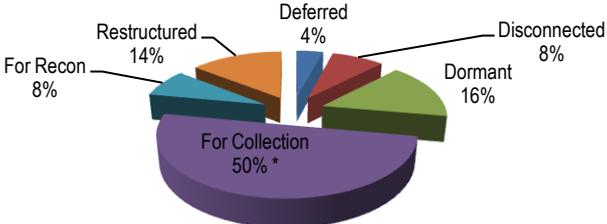


**SIGNIFICANT RISK EXPOSURES TO PSALM
As of 31 December 2015**

As a result of the risk management activities, the following were identified as the risks which PSALM has significant exposures to and PSALM has to closely monitor and manage:

Source of Risk	Risk Exposure	Existing Management Measures								
Foreign Currency Risk	<ul style="list-style-type: none"> • High foreign exchange translation risk • Around 78% of PSALM’s financial obligations (FO), which includes IPP obligation, is exposed to forex fluctuations with estimated sensitivity of almost PhP9 billion for every 1 peso movement in forex (PhP=USD) • Provided below is the currency mix profile of PSALM’s FO <div data-bbox="459 1010 1062 1547" style="text-align: center;"> <p>PSALM FO Profile by Currency</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <caption>PSALM FO Profile by Currency</caption> <thead> <tr> <th>Currency</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>73.45%</td> </tr> <tr> <td>PHP</td> <td>22.15%</td> </tr> <tr> <td>JPY</td> <td>4.40%</td> </tr> </tbody> </table> </div>	Currency	Percentage	USD	73.45%	PHP	22.15%	JPY	4.40%	<ul style="list-style-type: none"> • Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds • Buy out of PSALM IPP • Refinancing in PhP provided borrowing cost is low • Matching of currency of receivables and FO • Hedging instruments (e.g. Principal only Swap).
Currency	Percentage									
USD	73.45%									
PHP	22.15%									
JPY	4.40%									
Interest Rate Risk	<ul style="list-style-type: none"> • 42.8% (PhP235 billion) of PSALM’s FO are tied with fixed interest rates from Loans/Bonds. • 13.05% (PhP72 billion) are with floating interest rates from Loans/Bonds exposed to fluctuation (Peso and Yen Denominated). • 44.14% PSALM remaining FO comes from IPP Obligation • High interest rate from Private Financial Institutions charged to PSALM from incurring loan to service existing debts 	<ul style="list-style-type: none"> • Borrowing cost cap set by the Board • Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds 								

Source of Risk	Risk Exposure	Existing Management Measures														
	<ul style="list-style-type: none"> PSALM Exposure in high coupon loans Contrary to popular perception, companies with fixed rate borrowings are not immune to interest rate risks. Fixed rate liabilities face opportunity losses on interest rate savings when rates fall. Floating rate liabilities face losses if rate rise Provided below is the FO profile based on interest type <div data-bbox="488 719 1090 1339" style="border: 1px solid black; padding: 10px; text-align: center;"> <p>PSALM FO Profile by Interest Rate As 31 December 2015</p>  <table border="1" data-bbox="643 943 951 1234"> <caption>PSALM FO Profile by Interest Rate</caption> <thead> <tr> <th>Interest Rate Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>IPP</td> <td>44.14%</td> </tr> <tr> <td>Fixed</td> <td>42.81%</td> </tr> <tr> <td>Floating</td> <td>13.05%</td> </tr> </tbody> </table> </div>	Interest Rate Type	Percentage	IPP	44.14%	Fixed	42.81%	Floating	13.05%							
Interest Rate Type	Percentage															
IPP	44.14%															
Fixed	42.81%															
Floating	13.05%															
Credit Risk	<ul style="list-style-type: none"> High receivable from delinquent power customer is around PhP33 billion. The total power receivables as of 31 December 2015 amounts to PhP35 billion wherein only PhP2 billion pertains to prompt payor/ current power customers. <div data-bbox="448 1675 1131 1966" style="border: 1px solid black; padding: 10px; text-align: center;"> <p>Profile of Overdue Power Receivables</p>  <table border="1" data-bbox="499 1731 1106 1955"> <caption>Profile of Overdue Power Receivables</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>For Collection</td> <td>50%*</td> </tr> <tr> <td>For Recon</td> <td>8%</td> </tr> <tr> <td>Restructured</td> <td>14%</td> </tr> <tr> <td>Deferred</td> <td>4%</td> </tr> <tr> <td>Disconnected</td> <td>8%</td> </tr> <tr> <td>Dormant</td> <td>16%</td> </tr> </tbody> </table> <p>Note: Of the amount subject for collection, 95% covers the accounts of ALECO, MAGELCO,</p> </div>	Category	Percentage	For Collection	50%*	For Recon	8%	Restructured	14%	Deferred	4%	Disconnected	8%	Dormant	16%	<ul style="list-style-type: none"> Implementation of disconnection policy Restructuring Program Reconciliation/consultation/validation with concerned customers Prepayment of restructured balance through loan assistance from banks who offer lower interests compared to the
Category	Percentage															
For Collection	50%*															
For Recon	8%															
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Deferred	4%															
Disconnected	8%															
Dormant	16%															

Source of Risk	Risk Exposure	Existing Management Measures
		rate of interest currently being imposed by PSALM <ul style="list-style-type: none"> • Coordination with other government agencies such as DOE, NEA, etc.
Liquidity Risk	<ul style="list-style-type: none"> • Mismatch between debt maturities and privatization proceeds 	<ul style="list-style-type: none"> • Fast track privatization program with priority for losing plants • Matching of payment terms and FO maturities • SD/SCC Recovery through UC
Disaster Risk (Natural or Man-made)	<ul style="list-style-type: none"> • High exposure of power assets to earthquakes, terrorism, oil spill, etc. 	<ul style="list-style-type: none"> • Risk Survey • Industrial All Risk Insurance
Operational Risk	<ul style="list-style-type: none"> • Failure in power plants' operation 	<ul style="list-style-type: none"> • Timely maintenance of owned power plants
Political Risk	<ul style="list-style-type: none"> • Transition in Administration 	<ul style="list-style-type: none"> • Availability of presentation/briefing materials
Regulatory Risk	<ul style="list-style-type: none"> • Change/amendments in laws and regulations that may affect power industry. • Delays in approval from government regulatory bodies 	<ul style="list-style-type: none"> • Close coordination with government regulatory bodies. • PSALM is guided by EPIRA.

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