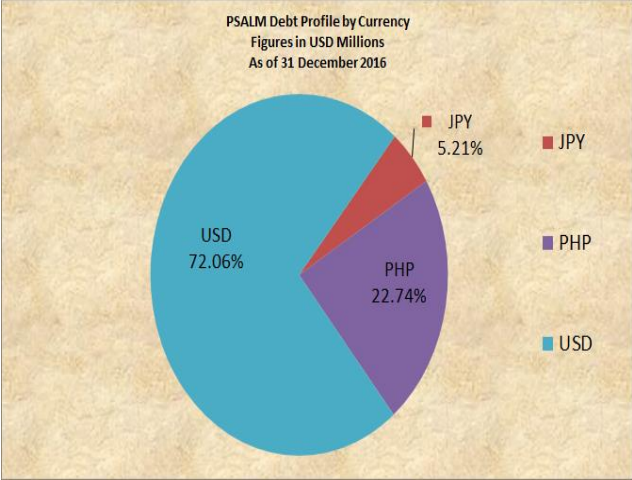
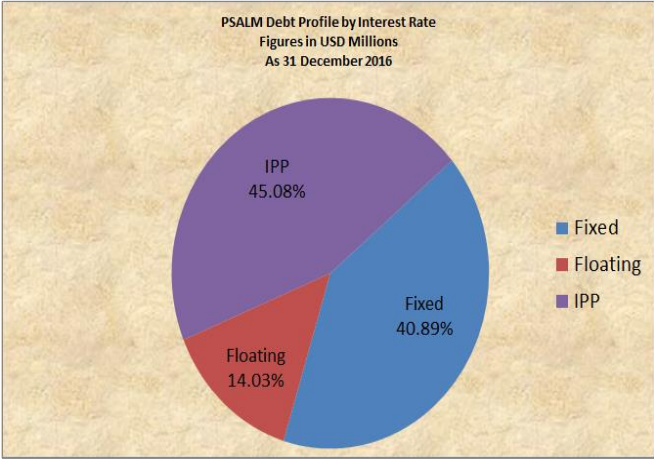
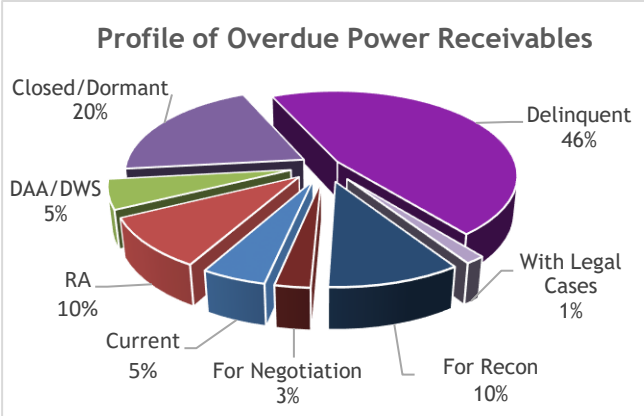


**SIGNIFICANT RISK EXPOSURES TO PSALM  
As of 31 December 2016**

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"> <li>• High foreign exchange translation risk</li> <li>• Around 77% of PSALM’s financial obligations (FO), which includes IPP obligation, is exposed to forex fluctuations with estimated sensitivity of almost PhP8 billion for every 1 peso movement in forex (PhP=USD)</li> <li>• Provided below is the currency mix profile of PSALM’s FO</li> </ul>  <p>PSALM Debt Profile by Currency Figures in USD Millions As of 31 December 2016</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>72.06%</td> </tr> <tr> <td>PHP</td> <td>22.74%</td> </tr> <tr> <td>JPY</td> <td>5.21%</td> </tr> </tbody> </table>	Currency	Percentage	USD	72.06%	PHP	22.74%	JPY	5.21%	<ul style="list-style-type: none"> <li>• Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds</li> <li>• Buyout of PSALM IPP</li> <li>• Refinancing in PhP provided borrowing cost is low</li> <li>• Matching of currency of receivables and FO</li> <li>• Hedging instruments (e.g. Principal only Swap)</li> </ul>
Currency	Percentage									
USD	72.06%									
PHP	22.74%									
JPY	5.21%									
Interest Rate Risk	<ul style="list-style-type: none"> <li>• 40.89% (PhP206 billion) of PSALM’s FO are tied with fixed interest rates from Loans/Bonds.</li> <li>• 14.03% (PhP71 billion) are with floating interest rates from Loans/Bonds exposed to fluctuation (Peso and Yen Denominated).</li> <li>• 45.08% PSALM remaining FO comes from IPP Obligation</li> <li>• High interest rate from Private Financial Institutions charged to PSALM from incurring loan to service existing debts</li> <li>• PSALM Exposure in high coupon loans</li> <li>• Contrary to popular perception,</li> </ul>	<ul style="list-style-type: none"> <li>• Borrowing cost cap set by the Board</li> <li>• Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds</li> </ul>								

Source of Risk	Risk Exposure	Existing Management Measures																		
	<p>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</p> <ul style="list-style-type: none"> <li>• Provided below is the FO profile based on interest type</li> </ul>  <p style="text-align: center;">PSALM Debt Profile by Interest Rate Figures in USD Millions As 31 December 2016</p> <table border="1"> <thead> <tr> <th>Interest Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>IPP</td> <td>45.08%</td> </tr> <tr> <td>Fixed</td> <td>40.89%</td> </tr> <tr> <td>Floating</td> <td>14.03%</td> </tr> </tbody> </table>	Interest Type	Percentage	IPP	45.08%	Fixed	40.89%	Floating	14.03%											
Interest Type	Percentage																			
IPP	45.08%																			
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Credit Risk	<ul style="list-style-type: none"> <li>• High receivable from delinquent power customer is around PhP36.45 billion. The total power receivables as of 31 December 2016 amounts to PhP38.30 billion wherein only PhP1.90 billion pertains to prompt payor/ current power customers.</li> </ul>  <p style="text-align: center;">Profile of Overdue Power Receivables</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Delinquent</td> <td>46%</td> </tr> <tr> <td>Closed/Dormant</td> <td>20%</td> </tr> <tr> <td>RA</td> <td>10%</td> </tr> <tr> <td>For Recon</td> <td>10%</td> </tr> <tr> <td>Current</td> <td>5%</td> </tr> <tr> <td>DAA/DWS</td> <td>5%</td> </tr> <tr> <td>For Negotiation</td> <td>3%</td> </tr> <tr> <td>With Legal Cases</td> <td>1%</td> </tr> </tbody> </table> <p>Note: Of the amount classified as delinquent, 93% covers the accounts of ALECO, MAGELCO, LASURECO, and PUD-Olongapo.</p>	Category	Percentage	Delinquent	46%	Closed/Dormant	20%	RA	10%	For Recon	10%	Current	5%	DAA/DWS	5%	For Negotiation	3%	With Legal Cases	1%	<ul style="list-style-type: none"> <li>• Implementation of disconnection policy</li> <li>• Restructuring Program</li> <li>• Reconciliation/consultation/validation with concerned customers</li> <li>• Prepayment of restructured balance through loan assistance from banks who offer lower interests compared to the rate of interest currently being imposed by PSALM</li> <li>• Coordination with other government</li> </ul>
Category	Percentage																			
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Source of Risk	Risk Exposure	Existing Management Measures
		agencies such as DOE, NEA, etc.
Liquidity Risk	<ul style="list-style-type: none"> <li>• Mismatch between debt maturities and privatization proceeds</li> </ul>	<ul style="list-style-type: none"> <li>• Fast track privatization program with priority for losing plants</li> <li>• Matching of payment terms and FO maturities</li> <li>• SD/SCC Recovery through UC</li> </ul>
Disaster Risk (Natural or Man-made)	<ul style="list-style-type: none"> <li>• High exposure of power assets to earthquakes, terrorism, oil spill, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk Survey</li> <li>• Industrial All Risk Insurance</li> </ul>
Operational Risk	<ul style="list-style-type: none"> <li>• Failure in power plants' operation</li> </ul>	<ul style="list-style-type: none"> <li>• Timely maintenance of owned power plants</li> </ul>
Political Risk	<ul style="list-style-type: none"> <li>• Transition in Administration</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of presentation/ briefing materials</li> </ul>
Regulatory Risk	<ul style="list-style-type: none"> <li>• Change/amendments in laws and regulations that may affect power industry.</li> <li>• Delays in approval from government regulatory bodies</li> </ul>	<ul style="list-style-type: none"> <li>• Close coordination with government regulatory bodies.</li> <li>• PSALM is guided by EPIRA.</li> </ul>

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