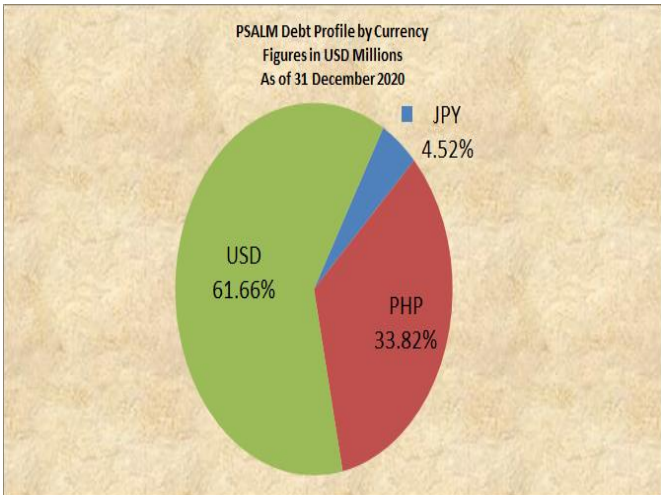
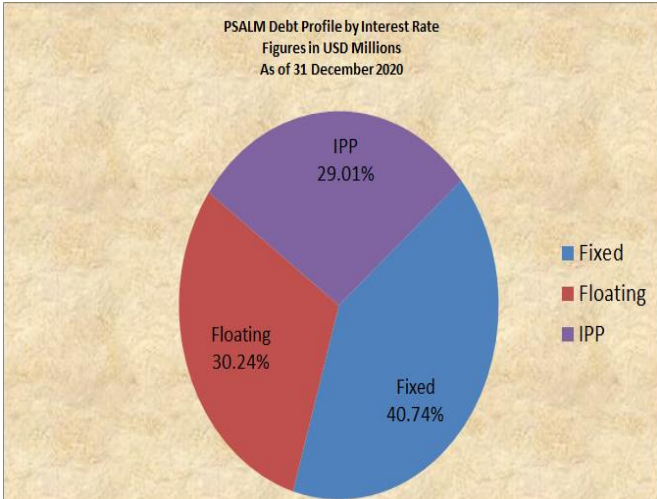
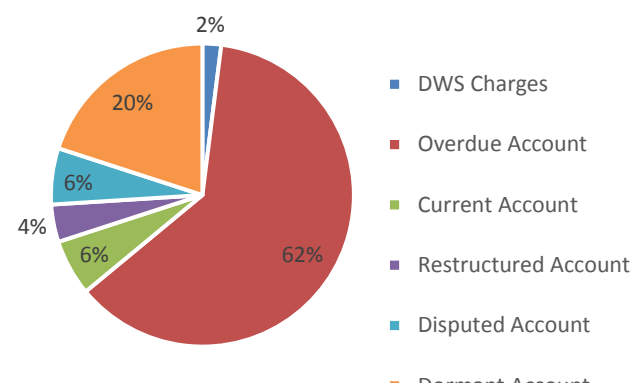


**SIGNIFICANT RISKS EXPOSURE TO PSALM
As of 31 December 2020**

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

Source of Risk	Risk Exposure	Existing Management Measures								
Market Risk	<ul style="list-style-type: none"> • Possibility for PSALM to incur losses due to adverse fluctuations in the market rates and prices. 	<ul style="list-style-type: none"> • Since this is a systematic risk that will affect the overall financial performance, this cannot be eliminated/ addressed through diversification 								
Foreign Currency Risk	<ul style="list-style-type: none"> • High foreign exchange translation risk • Around 66% of PSALM’s financial obligations (FO), which includes IPP obligation, is exposed to forex fluctuations with estimated sensitivity of PhP5.22 billion for every 1 Peso movement in forex (PhP=USD). • Provided below is the currency mix profile of PSALM’s FO:  <p>PSALM Debt Profile by Currency Figures in USD Millions As of 31 December 2020</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>61.66%</td> </tr> <tr> <td>PHP</td> <td>33.82%</td> </tr> <tr> <td>JPY</td> <td>4.52%</td> </tr> </tbody> </table>	Currency	Percentage	USD	61.66%	PHP	33.82%	JPY	4.52%	<ul style="list-style-type: none"> • Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds • Buyout 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	61.66%									
PHP	33.82%									
JPY	4.52%									
Interest Rate Risk	<ul style="list-style-type: none"> • 40.74% (PhP154 billion) of PSALM’s FO are tied with fixed interest rates from loans/bonds. 	<ul style="list-style-type: none"> • Borrowing cost cap set by the Board • Prepayment/ 								

Source of Risk	Risk Exposure	Existing Management Measures								
	<ul style="list-style-type: none"> • 30.24% (PHP114 billion) are with floating interest rates from loans/bonds exposed to fluctuation. • 29.01% of PSALM’s remaining FO comes from IPP Obligations. • High interest rate from private financial institutions charged to PSALM from availing loans to service existing debts. • PSALM exposure to 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:  <p style="text-align: center;">PSALM Debt Profile by Interest Rate Figures in USD Millions As of 31 December 2020</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Interest Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Fixed</td> <td>40.74%</td> </tr> <tr> <td>Floating</td> <td>30.24%</td> </tr> <tr> <td>IPP</td> <td>29.01%</td> </tr> </tbody> </table>	Interest Type	Percentage	Fixed	40.74%	Floating	30.24%	IPP	29.01%	<p>Buyback of high coupon bearing foreign currency loans and bonds</p> <ul style="list-style-type: none"> • Exploration of interest rate conversion if the timing is favorable to PSALM
Interest Type	Percentage									
Fixed	40.74%									
Floating	30.24%									
IPP	29.01%									
Credit Risk	<ul style="list-style-type: none"> • Receivable from overdue account of power customers is around PhP27.07 billion (62%) out of the total power receivables, as of 31 December 2020, amounting to PhP43.78 billion wherein only PhP2.53 billion (6%) pertains to prompt payor/ current power customers. 	<ul style="list-style-type: none"> • Issuances of Final Demand Letters • Filing of Collection Case • Restructuring/ Special Payment Program • Reconciliation/ consultation/ validation with concerned customers • Prepayment of restructured balance through 								

Source of Risk	Risk Exposure	Existing Management Measures														
	<p style="text-align: center;">PROFILE OF POWER RECEIVABLES</p>  <table border="1" style="display: none;"> <caption>Profile of Power Receivables Data</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Overdue Account</td> <td>62%</td> </tr> <tr> <td>Dormant Account</td> <td>20%</td> </tr> <tr> <td>Disputed Account</td> <td>6%</td> </tr> <tr> <td>Restructured Account</td> <td>4%</td> </tr> <tr> <td>Current Account</td> <td>6%</td> </tr> <tr> <td>DWS Charges</td> <td>2%</td> </tr> </tbody> </table>	Category	Percentage	Overdue Account	62%	Dormant Account	20%	Disputed Account	6%	Restructured Account	4%	Current Account	6%	DWS Charges	2%	<p>loan assistance from banks that offer longer terms</p> <ul style="list-style-type: none"> • Coordination with other government agencies such as DOE, DOF, DILG NEA, etc. • Writing-off of Closed/Dormant Accounts subject for approval of COA
Category	Percentage															
Overdue Account	62%															
Dormant Account	20%															
Disputed Account	6%															
Restructured Account	4%															
Current Account	6%															
DWS Charges	2%															
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 • Timely implementation and allocation of the Murang Kuryente Act from the Malampaya Fund 														
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. 	<ul style="list-style-type: none"> • Close coordination with government 														

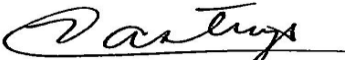
Source of Risk	Risk Exposure	Existing Management Measures
	<ul style="list-style-type: none"> Delays in approval from government regulatory bodies. 	regulatory bodies. <ul style="list-style-type: none"> PSALM is guided by EPIRA.

Prepared by:

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