

**SIGNIFICANT RISK EXPOSURES TO PSALM
As of 31 December 2014**

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 77% of PSALM's financial obligations (FO), which includes IPP obligation, is exposed to forex fluctuations with estimated sensitivity of almost PhP10 billion for every 1 peso movement in forex (PhP=USD) • Provided below is the currency mix profile of PSALM's FO <div data-bbox="501 1010 1114 1397" 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>71.63%</td> </tr> <tr> <td>PHP</td> <td>23.11%</td> </tr> <tr> <td>JPY</td> <td>5.24%</td> </tr> <tr> <td>EUR</td> <td>0.03%</td> </tr> </tbody> </table> </div>	Currency	Percentage	USD	71.63%	PHP	23.11%	JPY	5.24%	EUR	0.03%	<ul style="list-style-type: none"> • Prepayment/ Buyback of high coupon bearing foreign currency loans and bonds • 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	71.63%											
PHP	23.11%											
JPY	5.24%											
EUR	0.03%											
Interest Rate Risk	<ul style="list-style-type: none"> • 43.22% (PhP251 billion) of PSALM's FO are tied with fixed interest rates from Loans/Bonds. • 12.49% (PhP74 billion) are with floating interest rates from loans/bonds exposed to fluctuation (PhP, JPY and EUR denominated) • 44.29% PSALM remaining FO comes from IPP Obligation • 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 	<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"> • Provided below is the FO profile based on interest type <div data-bbox="491 421 1094 1061" style="border: 1px solid black; padding: 10px; text-align: center;"> <p>PSALM FO Profile by Interest Rate As of 31 December 2014</p> <p>■ Fixed ■ Floating ■ Security Deposit ■ IPP</p> <table border="1" style="margin: 0 auto;"> <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>44.29%</td> </tr> <tr> <td>Fixed</td> <td>43.22%</td> </tr> <tr> <td>Floating</td> <td>12.49%</td> </tr> <tr> <td>Security Deposit</td> <td>0%</td> </tr> </tbody> </table> </div>	Interest Rate Type	Percentage	IPP	44.29%	Fixed	43.22%	Floating	12.49%	Security Deposit	0%					
Interest Rate Type	Percentage															
IPP	44.29%															
Fixed	43.22%															
Floating	12.49%															
Security Deposit	0%															
Credit Risk	<ul style="list-style-type: none"> • High receivable from power customer amounting to PhP37 billion as of 31 December 2014, of which PhP33 billion pertains to power receivables from delinquent customers. <div data-bbox="459 1290 1120 1818" style="border: 1px solid black; padding: 10px; text-align: center;"> <p>Profile of Overdue Power Receivables</p> <table border="1" style="margin: 0 auto;"> <caption>Profile of Overdue Power Receivables</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>For Collection</td> <td>48%</td> </tr> <tr> <td>Dormant</td> <td>16%</td> </tr> <tr> <td>For Recon</td> <td>10%</td> </tr> <tr> <td>Restructured</td> <td>14%</td> </tr> <tr> <td>Disconnected</td> <td>8%</td> </tr> <tr> <td>Deferred</td> <td>4%</td> </tr> </tbody> </table> <p>Note: Of the amount subject for collection, 94% covers the accounts of ALECO, MAGELCO, LASURECO and PUD-Olongapo.</p> </div>	Category	Percentage	For Collection	48%	Dormant	16%	For Recon	10%	Restructured	14%	Disconnected	8%	Deferred	4%	<ul style="list-style-type: none"> • Implementation of disconnection policy • Restructuring Program • Reconciliation/consultation/validation with concerned customers • Coordination with other government agencies such as DOE, NEA, etc.
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Source of Risk	Risk Exposure	Existing Management Measures
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

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