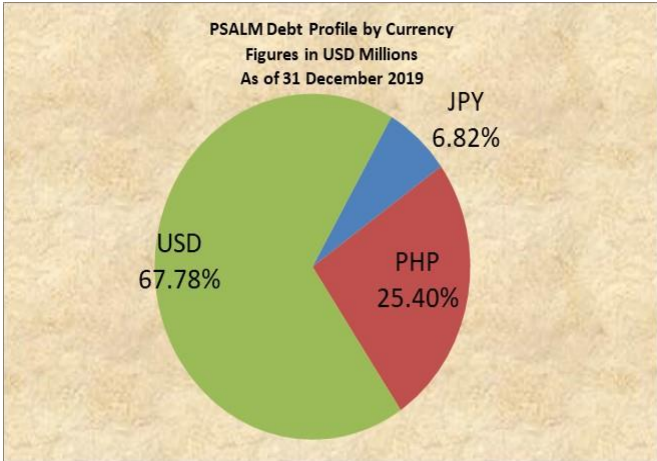
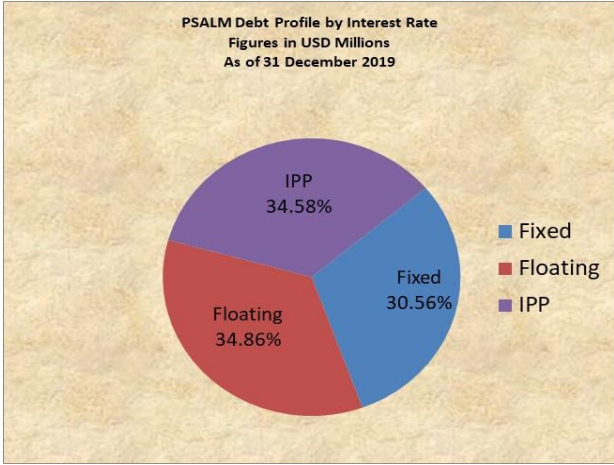
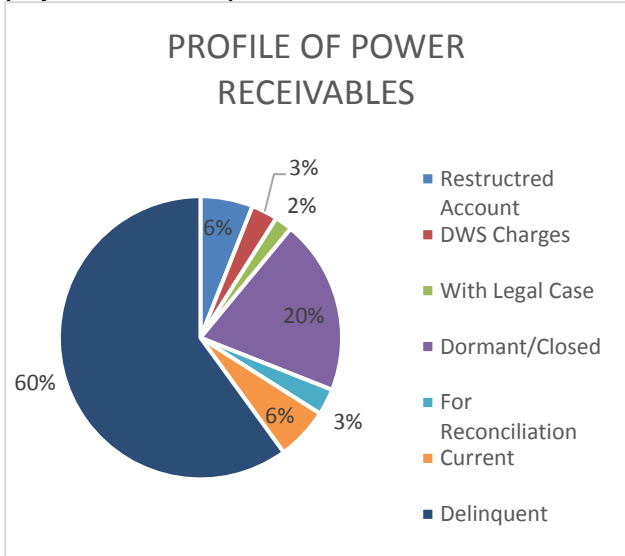


**SIGNIFICANT RISKS EXPOSURE TO PSALM
As of 31 December 2019**

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. 									
Foreign Currency Risk	<ul style="list-style-type: none"> High foreign exchange translation risk Around 68% of PSALM's financial obligations (FO), which includes IPP obligation, is exposed to forex fluctuations with estimated sensitivity of PhP5.6 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 2019</p> <table border="1"> <thead> <tr> <th>Currency</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>USD</td> <td>67.78%</td> </tr> <tr> <td>PHP</td> <td>25.40%</td> </tr> <tr> <td>JPY</td> <td>6.82%</td> </tr> </tbody> </table>	Currency	Percentage	USD	67.78%	PHP	25.40%	JPY	6.82%	<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	67.78%									
PHP	25.40%									
JPY	6.82%									
Interest Rate Risk	<ul style="list-style-type: none"> 30.56% (PhP128 billion) of PSALM's FO are tied with fixed interest rates from loans/bonds. 34.86% (PhP146 billion) are with floating interest rates from loans/bonds exposed to fluctuation. 34.58% 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. 	<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 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: 	
Credit Risk	<ul style="list-style-type: none"> High receivable from delinquent power customer is around PhP24.99 billion. The total power receivables as of 31 December 2019 amounts to PhP41.91 billion wherein only PhP2.57 billion 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 loan assistance from banks that offer lower interests compared to the rate of interest currently being

Source of Risk	Risk Exposure	Existing Management Measures
	<p>Note: Of the amount classified as delinquent, 90% covers the accounts of ALECO, MAGELCO, LASURECO, PELCO III and PUD-Olongapo.</p>	<p>imposed by PSALM</p> <ul style="list-style-type: none"> • Coordination with other government agencies such as • Writing-off of Closed/Dormant Accounts subject for approval of COA • 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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