



Funding the Republic

REPUBLIKA NG PILIPINAS
KAGAWARAN NG PANANALAPI
KAWANIHAN NG INGATANG-YAMAN
(BUREAU OF THE TREASURY)
INTRAMUROS, MANILA

NOTICE OF OFFERING

To : All Government Securities Eligible Dealers

Date : April 06, 2010

Subject : **Power Sector Assets and Liabilities Management Corporation (“PSALM”) Series A: 5-Year Fixed Rate Bonds Due 2015 and Series B: 7-Year Fixed Rate Retail Bonds Due 2017 (the “PSALM Retail Bonds”)**

Please be advised that PSALM, through the Bureau of the Treasury (“BTr”), will issue Peso-denominated 5-year and 7-year fixed rate retail bonds in a minimum aggregate nominal principal amount of Php20 billion.

You are invited to participate as a Dealer in respect of such issue subject to the provisions of this Notice of Offering, the Issue Mechanics and the Terms and Conditions of the PSALM Retail Bonds (collectively, the “Applicable Terms”). The Issue Mechanics, a copy of which is attached as **Annex A**, shall be deemed to be incorporated by reference into, and to form part of this Notice of Offering. The contemplated issue will be governed by the Applicable Terms. Please be advised that your submission of the Accession Letter and Bid/Proposal Notice signifying your agreement to participate in the issue as a Dealer shall constitute an agreement on your part to be bound by the Applicable Terms in relation to such issue.

A summary of the Principal Commercial Terms of each Series of PSALM Bonds is attached hereto as **Schedule 1**.

Below is the timetable of activities relative to the captioned issue.

Auction Date : April 12, 2010
Public Offer Period : April 12, 2010 – April 19, 2010
Issue Date : April 22, 2010

PSALM, through the BTr reserves the right to revise the timetable. You will be notified through Thomson Reuters or any other information service provider, e.g. Bloomberg and PDEX, of any change in the timetable of activities.

Further, a copy of this Notice of Offering and its attachments may be accessed through the BTr website (www.treasury.gov.ph).

Interested GSEDs must submit their bids electronically through their respective Thomson Reuters terminals on or before 1:00 p.m. of the Auction Date.

Terms not defined herein have the meanings set forth in the Issue Mechanics.

Schedule 1

- Issue** : Philippine Peso denominated fixed rate retail bonds (the “PSALM Retail Bonds”) to be offered as follows:
- Series A: 5-year fixed rate retail bonds
Series B: 7-year fixed rate retail bonds
- Each Series of the PSALM Retail Bonds carries the full, irrevocable and unconditional guarantee of the Republic of the Philippines (ROP).
- Use of Proceeds** : The proceeds of the PSALM Retail Bonds will be used by the Issuer to augment its working capital requirements and to refinance its existing liabilities pursuant to its liability management program.
- Issuer** : Power Sector Assets and Liabilities Management Corporation (“PSALM”)
- Guarantor** : The ROP through the Department of Finance (“DOF”)
- Sole Issue Coordinator** : Development Bank of the Philippines (“DBP”)
- Joint Issue Managers** : DBP
First Metro Investment Corporation (“FMIC”)
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”)
- Dealers** : Government Securities Eligible Dealers (“GSEDs”) who have submitted an Accession Letter in the form attached as **Schedule 1** of the attached Issue Mechanics.
- Selling Agents** : Dealers that are awarded an aggregate minimum principal amount of at least Pesos: Three Hundred Fifty Million (Php350,000,000.00) in the Dutch Auction of the 5-year or 7-year PSALM Retail Bonds, or any combination thereof.
- Paying Agent and Registrar** : The Bureau of the Treasury, using its Registry of Scripless Securities (“RoSS”) facility.
- Trustee** : LBP Trust Banking Group
- Issue Amount** : Minimum aggregate amount of Twenty Billion (Php 20,000,000,000.00)
- Series A: 5-year - Php12,000,000,000.00
Series B: 7-year - Php 8,000,000,000.00
- The Issuer reserves the right to increase/decrease the size of each Series.
- Manner of Offering** : Dutch Auction and public offer

- Dutch Auction** : The Issuer shall offer the Bonds to GSEDs by way of auction that shall be conducted on the Auction Date in order to determine the price of the Bonds. The auction shall follow the same procedures used for the competitive auction of government securities as set out in DOF Department Order No. 141-95, series of 1995, as amended
- Auction Date** : 12 April 2010
- Issue Date** : April 22, 2010, unless another date is announced by PSALM
- Public Offer Period** : 12 April 2010 – 19 April 2010
- Acceptance of subscriptions shall be on a “first-come-first-serve” basis. When subscription has reached a level deemed sufficient by the Issuer, the Issuer shall inform the BTr, after which the BTr-SOD shall announce the termination and closure of the offer period through Thomson Reuters or any other electronic financial information service provider selected by the Issuer. PSALM reserves the right to announce at any time, the remaining volume available for sale on a particular day during the Public Offer Period.
- ISIN/Series Code** : 5-year – PSAL0515D017
7-year – PSAL0717D019
- Form and Denomination** : The PSALM Retail Bonds shall be issued in scripless form and will be sold in minimum denominations of Pesos: Five Thousand (Php 5,000.00) and in integral multiples thereof.
- Maturity Dates** : 5-year April 22, 2015
7-year April 22, 2017
- If the Issue Date does not occur on 22 April 2010, the Maturity Date shall be the date that is 5 years (Series A) and 7 years (Series B) following the Issue Date.
- Issue Price** : At par (or 100%)
- Redemption Price** : At par (or 100%)
- Interest Rate** : The final Interest Rate with respect to the PSALM Retail Bonds will be determined pursuant to a Dutch Auction to be conducted among GSEDs using the BTr’s Automated Debt Auction Processing System (“ADAPS”). The Interest Rate shall be no higher than the applicable Maximum Interest Rate.
- Spread** : Maximum of sixty-five (65) basis points for each Series
- Maximum Interest Rate** : The Maximum Interest Rate will be the applicable Benchmark Rate on the Auction Date plus the Spread, rounded off to the nearest one-eighth (1/8) of one percent (1.00%). The Maximum Interest Rate shall be stated in three (3) decimal places.
- Benchmark Rate** : The Benchmark Rate shall be determined as being the benchmark yield of the most recent “on the run” 5-year or 7-year (as the case may be) Fixed Rate Treasury Bond

(“FXTB”) issue as shown on the “PDST-F” page, (or such successor page that members of the Bankers’ Association of the Philippines have agreed to utilize as a substitute to PDST-F) at or about 11:16 am on the Auction Date. In the absence of a quotation for the applicable benchmark “on-the-run” issue, the Benchmark Rate shall be interpolated on a straight-line basis from the nearest shorter and longer-dated FXTB issues.

In the event that such screen page is not available on Auction Date, the applicable Benchmark Rate shall be determined by reference to the “PDST-F” page at or about 11:16 am on the immediately preceding Banking Day.

Interest Payment : Interest on the PSALM Retail Bonds will be calculated on a 30/360-day count basis and will be paid quarterly in arrears on the last day of each three-month Interest Period (each an “Interest Payment Date”). If the Interest Payment Date is not a Banking Day, interest will be paid on the next succeeding Banking Day, without adjustment to the amount of interest to be paid. Each Series of PSALM Retail Bonds will cease to bear interest on Maturity Date.

Principal Repayment : The PSALM Retail Bonds will be redeemed at par on the relevant Maturity Date. If such principal repayment is due on a day that is not a Banking Day, the principal repayment date shall be made on the immediately succeeding Banking Day, without adjustment to the amount of principal to be paid.

The Issuer may purchase the PSALM Retail Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases from all Bondholders. PSALM Retail Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Payments : The principal of, interest on, and all other amounts payable on the PSALM Retail Bonds shall be paid to the Bondholders by crediting the settlement accounts designated by each of the Bondholders.

Eligibility : The PSALM Retail Bonds qualify as insurance reserves under the Insurance Commission rules and regulations.

Title and Transfer : Title to the PSALM Retail Bonds shall pass by endorsement and delivery of the PSALM Retail Bonds to the transferee and registration in the RoSS maintained by the Registrar. Settlement in respect of such transfer or change of title to the PSALM Retail Bonds, including the settlement of documentary stamps taxes (“DST”), if any, arising from subsequent transfers, shall be made directly between the transferee and/or the transferor Bondholders.

Selling and Transfer Restrictions : As per Issue Mechanics, this Notice of Offering and applicable regulations of the BTr.

Retail Investors : Those persons other than a GSED and Investment Houses and/or their subsidiary corporation/s performing banking

and/or quasi-banking activities, the GSIS, SSS, PHIC, HDMF (Pag-IBIG).

Retail Sales Obligations

: Each Selling Agent shall be required to sell to Retail Investors, at least 10% of its subscription for PSALM Retail Bonds at any time during the Public Offer Period.

In the event a Selling Agent is unable to comply with this requirements, the Issuer shall only pay selling commission for the actual amount sold to Retail Investors and shall not pay any selling commission for the balance of the total sales. The Selling Agent shall reimburse the Issuer for the amount of the Selling Agency Fees in accordance with Section 2.6 of the Issue Mechanics.

Sale to Dealers and Investment Houses and/or subsidiary corporations of Dealers and Investment Houses performing banking and/or quasi-banking functions/activities shall not be considered as retail sales. However, the Selling Agent may require the Dealer or Investment House and/or subsidiary corporation to comply with the 10% sell down requirement to Retail Investors, in which event the Dealer or Investment House/subsidiary corporation shall be required to submit corresponding bondholders' list to the Selling Agent to be included in its reportorial obligations to the Issuer.

Further, Dealers are to sell PSALM Retail Bonds in its original form and current structure. Any attempt or intention to introduce variants and derivatives thereof, to use it as underlying assets for another product, or to create a wrap around structure to repackage the same, shall constitute a material breach of the selling agency obligation under the Issue Mechanics and this Notice of Offering, and shall result in the automatic termination of service as Selling Agent, as well as forfeiture of the corresponding Selling Agency Fee.

This is without prejudice to the filing of appropriate criminal charges and other sanctions provided for by law in case the Selling Agents submit falsified Sales Report/Bondholders' List.

Selling Agency Fees

: Selling Agents shall be paid a Selling Agency Fee based on the aggregate amount of the PSALM Retail Bonds awarded during the Auction and additional sales sold during the Public Offer Period.

The fee rate applicable shall be based on the amount awarded during the Auction, determined as follows:

Amount Awarded at Auction	Fee Rate
Php 350.0 Million – Php 499.0 Million	0.050%
Php 500.0 Million – Php 999.0 Million	0.075%
Php 1.0 Billion and above	0.100%

No Selling Agent shall cede, pay, share, or compensate third-party investors or purchasers any Selling Agency Fees in exchange for the purchase of the PSALM Retail Bonds. Any Selling Agency Fee due to Selling Agents shall be deducted from the proceeds of their PSALM Retail Bonds sales and computed in accordance with **Schedule 1-A** of this Notice of Offering.

GSEDs who are awarded at least Php 1.0 Billion at the auction shall be awarded the title “Co-Manager”.

- Reporting and Other Obligations** : As per Issue Mechanics.
- Each Dealer and/or Selling Agent shall be required to submit to the BTr and the Issuer, not later than 4:00 p.m. of each day during the Public Offer Period, its daily sales report/s, in the format attached as **Schedule 8** to the Issue Mechanics, thru fax to BTr-SOD. The SOD shall provide three (3) Telefax Numbers available throughout the offer period.
- Telefax numbers:
(02) 527-3132; (02) 527-7089 & (02) 526-6487
- Subscriptions sent thru fax may be confirmed at the following telephone numbers: (02) 527-3117; (02) 527-2827 or (02) 522-8122 local 207
- Every subscription originating from the same Dealer shall be sent only once to any of three (3) designated fax numbers, and shall be numbered sequentially in accordance with **Schedule 8** of the attached Issue Mechanics, from day 1 up to the end of the offer period or upon termination thereof, subject to the “first come-first serve” policy. The Issuer shall reject the following –
- (a) subscriptions without transmission numbers;
 - (b) subscriptions with identical transmission numbers;
 - (c) subscriptions transmitted more than once in a single fax number.
- PSALM also reserves the right to accept or reject a Dealer’s reported sales subscription.
- Taxation** : Prevailing final withholding tax on coupon payment shall be for the account of the Bondholders.
- Tax Exempt Institutions (TEIs) shall be free from payment of any withholding tax, subject to the submission to the Issuer, through the BTr, of reasonable evidence of such exemption by the TEIs claiming the benefit of any exemption.
- DST for the primary issue of the PSALM Retail Bonds and the documentation, if any, shall be for the Issuer’s account.
- Tax on the subsequent transfer of the PSALM Retail Bonds shall be for the respective Bondholder’s account.
- Status of the Bonds** : The PSALM Retail Bonds will constitute direct, unconditional, unsubordinated and general obligations of the Issuer ranking at least pari passu in all respects and ratably without preference or priority with all other direct, unconditional, unsubordinated Domestic Indebtedness of the Issuer.
- “Indebtedness” means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed; while “Domestic Indebtedness” means any Indebtedness which is denominated or payable by its terms in the lawful currency of the Republic.
- The payment obligations of the Republic under the Guarantee will constitute irrevocable and unconditional obligations of the Republic and, when due, will rank pari

passu at all times in priority of payment with all other unsecured and unsubordinated Domestic Indebtedness of the Republic

Enrollment in the RoSS - Name on Registry : For investors without existing securities account (in RoSS or with Accredited Third Party Securities Custodian), the investors may opt to record their bondholdings in the RoSS in their own name. For this purpose, Dealers are required to provide the following information for the enrollment of the investors in the Registry of Scripless Securities-Name-on-Registry System (RoSS-NoR): the name of the Bondholder, Customer Code/GSED Client Number and Settlement Bank Account Number.

Dealers shall submit to the BTr the duly accomplished Investor's Undertaking executed by the purchasing client-investor. The form of Investor's Undertaking can be downloaded from the BTr website at www.treasury.gov.ph. Likewise, a copy of the Special Power of Attorney executed by the client-investor in favor of the Dealer for the creation of the RoSS securities account and for executing trade instruction shall be submitted by the Dealer to BTr upon demand.

Banking Day : Means a day on which commercial banks settle payments and are open for general business in Manila and Makati City.

Governing Law : Laws of the Republic of the Philippines

(SGD) ROBERTO B. TAN
Treasurer of the Philippines