

2015 Corporate Governance Report

Powered by Stakeholder Service

On its 113th year of service to various stakeholders, as the country's largest electric distribution utility company, Meralco reaffirmed its commitment to the principles of Fairness, Accountability, Integrity and Transparency in the conduct of its business and other dealings with its shareholders, customers, employees, government regulators, and other stakeholders by ensuring the highest standards of ethical business practices and upholding the tenets of service excellence. These principles have guided Meralco and will continue to do so throughout its corporate existence.



As a publicly listed company, Meralco subscribes to the highest standards of good corporate governance and has put in place a set of well-defined policies and processes to enhance corporate performance, sustain operational growth, and reinforce accountability, as well as protect the interests of all stakeholders.

The Company is in full compliance with the corporate governance code, rules, and regulations promulgated and enforced by the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE), Philippine Dealing & Exchange Corp. (PDEX), and other relevant regulatory bodies.

The Company's Board of Directors (Board) champions its corporate governance policies and processes while its Management implements and oversees relevant programs and communications to ensure full compliance to these policies and processes in the service of and for the benefit of all stakeholders.

In 2015, the Company and its officers received several awards and accolades from the SEC, PSE, and the investment community for excellence in corporate governance:

- **Top 50 ASEAN Publicly-Listed Companies** and ranked as **7th in the Top Philippine Publicly-Listed Companies** vis-à-vis the ASEAN Corporate Governance Scorecard (ACGS).
- **Top 10 Finalists** for the **Bell Awards** for exemplary corporate governance standards based on PSE's Corporate Governance Guidelines for Listed Companies, which include, among others, a sound business strategy, an effective board of directors and policies to protect shareholders rights.



- Corporate Governance Asia conferred on the Company the following awards:

- ▶ Asia's Best Chief Executive Officer (CEO) (Philippines)
– Oscar S. Reyes
- ▶ Best Investor Relations Company in the Philippines
- ▶ Best Investor Relations Officer in the Philippines
– Rafael L. Andrada
- ▶ Asia's Best Chief Finance Officer (CFO) (Philippines)
– Ms. Betty C. Siy Yap
- ▶ Best in Corporate Social Responsibility (CSR)

A. RIGHTS OF SHAREHOLDERS

The Company recognizes the rights of all shareholders as provided in the Corporation Code of the Philippines, other pertinent laws, rules, and regulations, the Company's Articles of Incorporation, Amended By-Laws and Revised Manual of Corporate Governance (MCG).

A.1 Right to Dividends

Dividend Policy

The Company's dividend policy, as approved by the Board and ratified by the shareholders during the May 25, 2010 Annual General Meeting (**AGM**), calls for the payment of regular cash dividend equivalent to 50% of (audited) consolidated core earnings for the year with a "look-back" basis, which allows the Company to pay special dividends beyond 50% of the consolidated core earnings for the year, relative to the availability of unrestricted retained earnings in accordance with the guidelines of the SEC, and cash.

The initial dividend paid on September 18, 2015 of PhP6.76 per share includes a PhP1.60 per share look-back dividend for 2014. In addition, the Company's BOD approved on February 26, 2016 a final regular cash dividend of PhP3.22 a share and a special cash dividend of PhP6.70 a share or a final cash dividend of PhP9.92 a share to all shareholders of record as at March 23, 2016, payable on April 15, 2016. This final cash dividend, which is in addition to the interim dividend of PhP5.16 a share, brings total cash dividends to PhP15.08 a share, consisting of regular dividends of PhP8.38 a share and the special dividend of PhP6.70 a share, or a total cash pay-out of 90% of the Company's 2015 consolidated core earnings.

A.2 Right to Participate in Decisions

The Company upholds the rights of all shareholders, including the minority shareholders, to participate in:

- Changes in the Company's charter, or amendments to the Company's Articles of Incorporation or By-laws;
- Authorization for issuance of additional shares or transfer of the Company's assets;
- Approval of remuneration or increase in remuneration of non-executive and executive directors; and
- Voting on matters in absentia through the use of proxy forms.

A.3 Right to Vote and Participate Effectively

Disclosure and Release of Notice to AGM

To provide shareholders enough time to examine the Company's information, the AGM Notice, was posted on the Company's website and distributed to shareholders on April 1, 2015, 55 days prior to the AGM date of May 26, 2015. Similar to all Company notices and circulars, the AGM Notice is written and published in English.

AGM

It is the Company's policy to encourage shareholders, including institutional shareholders and minority shareholders, to attend and actively participate in the AGM. The 2015 AGM was held on Tuesday, May 26, 2015, at 10:00 AM at the Meralco Theater, Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City.

The Company facilitates participation of shareholders who cannot attend the meeting in person by enclosing proxy forms in the AGM Notice where they can indicate their votes on matters that are taken up during the AGM. Shareholders can download the proxy forms together with details on how to appoint a proxy from the Company's website.

The Company granted all shareholders, including minority shareholders, the right to propose in advance or inquire on agenda items and nominate directors. The "Call for Nominations" was posted on the Company's website last February 3, 2015 for submission of proposed agenda and nomination of qualified candidates on or before March 9, 2015. The agenda and nominees were approved by the Board during its meeting on March 23, 2015.

Voting Procedures

A three-hour registration period was allotted before the start of the AGM.

The Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of 945,711,876 shares or approximately 83.91% of the total issued and outstanding shares of the Company.

An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share.

Votes were tallied and tabulated by the Office of the Corporate Secretary. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item.

The Company allowed shareholders to freely express their views and raise their questions during the AGM.

The Chairman of the Board, Chairman of the Audit Committee, Chairman of the Remuneration and Leadership Development Committee, Chairman of the Nomination and Governance Committee, Chairman of the Finance Committee, Board of Directors, President & CEO, CFO, Corporate Secretary, Assistant Corporate Secretary, other officers of the Company and its external auditors attended the AGM to present the performance results of the Company and respond to any

question from the shareholders relevant thereto. The appropriate meeting procedures and guidelines were followed before, during and after the AGM.

The Company posted the resolutions of the AGM on its website on the following day so that non-attending shareholders may be immediately informed.

A.4 Right to Approve Mergers and Acquisition

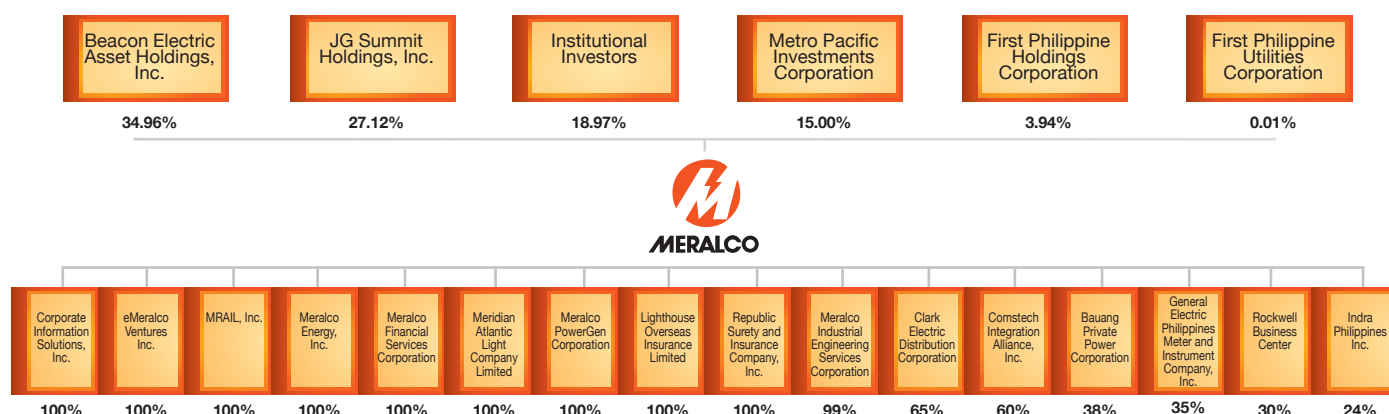
In the event of mergers and acquisitions requiring shareholders' approval, the Company appoints an independent party to evaluate the merits of the transaction as well as the fairness of the transaction price.

A.5 Institutional Investors

The Company recognizes the exercise of ownership rights by all shareholders, including institutional investors. The Company does not have any shareholders owning more than 50% of its total outstanding shares.

The complete list of the Public Ownership Report of Meralco as at December 31, 2015 was disclosed to the SEC, PSE and PDEX on January 12, 2016, where approximately 81.03% of the Company shares are held by principal and strategic shareholders, and the remaining 18.97% shareholdings are held by institutional investors, which are composed of the public float, the government, employees and other individuals.

The Company has a straightforward structure of alliance among its affiliates, and joint ventures, with no joint-holding or cross-holding of shares. There is no pyramid shareholding structure within the Group.



B. EQUITABLE TREATMENT OF SHAREHOLDERS

B.1 Shares and Voting Rights

The Company has only one classification of shares (common shares), with each share entitled to one vote.

B.2. Notice of AGM

The Notice of AGM contains, among others, the resolutions to be passed by the shareholders for each agenda item during the AGM. There is no bundling of several items into one resolution. It also provides the following information:

- Profiles of each director – age, academic qualification, date of first appointment, experience, and directorships in other listed companies seeking for election/re-election;
- External auditors seeking appointment/re-appointment;
- Dividend policy;
- Amount of dividends declared and any dividends payable; and
- Readily available proxy statements

The Notice of AGM is available on the Company's website.

B.3 Insider Trading (Blackout Period Policy)

Policy on Dealings in Company Shares of Stocks (Insider Trading/Blackout Period)

The Insider Trading Policy prohibits directors, officers, and employees from benefitting from information that is not generally available to the market through observance of a blackout period 10 trading days before and two (2) trading days after the release or announcement of the Company's material information or financial and operating results, during which trading in Company shares is prohibited.

The Company strictly enforces and monitors compliance with its policy on insider trading, which prohibits the trading of Company shares during prescribed periods by the following:

- Board of Directors
- Management
- Employees and associates who have been made aware of unpublished material information with respect to the Company and its operations

Under the revised policy approved for implementation on December 1, 2014, directors and officers are required to disclose to the SEC, PSE, and PDEX the details of any trading, dealing, acquisition, disposal, or change in their beneficial ownership of the Company (MER) shares, within two (2) business days after the transaction.

B.4 Related Party Transactions by Directors and Key Executives

The Related Party Transactions (RPT) Policy requires a committee composed of independent directors to review material/significant RPTs to determine whether they are in the best interest of the Company and its shareholders. All RPTs, including Company transactions with a director, are conducted in fair and at arms' length terms. No RPTs can be classified as financial assistance to entities other than wholly-owned subsidiary companies.

Details of the holding companies, subsidiaries and other related companies are disclosed in the Map of Meralco Corporate Group Structure (Relationships among the Companies within the Group).

The Company provides all the names of related parties, degree of relationship, nature and value for each material/significant RPT. Details are found in Note 23 to Consolidated Financial Statements.

In 2015, there was no case of insider trading or policy violations involving directors and officers of the Company and no RPTs that can be classified as financial assistance to entities other than wholly-owned subsidiary companies. The Company is fully compliant with the code and policies of corporate governance.

Conflict of Interest (COI) Policy

The COI Policy requires all directors, officers and employees to annually disclose their interest in transactions and any other conflicts of interest affecting the Company through the Full Business Interest Disclosure (FBID) Form for directors and officers, and the Annual Conflict of Interest Disclosure Form for employees. The Company requires directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists or may exist between their interest and that of the Company.

B.5 Protecting Minority Shareholders from Abusive Actions

The Company's policies embody its utmost respect to the right of the minority shareholders while pursuing corporate interest. Salient provisions are:

- Timely, fair and accurate disclosure of material information;
- Review of existing and development of new policies that will prevent the major shareholders from gaining undue advantage over and at the expense of minority shareholders;
- RPTs are disclosed in the Company's financial statements;
- Disinterested shareholders decide on all RPTs which require shareholders' approval.



C. ROLE OF STAKEHOLDERS

C.1 Respecting Rights of Stakeholders

The Company's policies and activities for its stakeholders promote an environment-friendly value chain and sustainable development.

Customers

It is the Company's policy to provide all customers with the same excellent service and fair treatment; complete and accurate information; and to undertake customer satisfaction surveys to continuously improve its services. Related activities are:

- Providing standardized services to home and micro businesses, small and medium-size enterprises and corporate business groups.
- Standardization of policies, work processes related to customers in all business centers and public information of the services and rates offered by the Company such as the monthly Meralco Advisory.
- Communicating significant operational plans and holding appreciation events such as Meralco Luminaries with customers at least once a year.
- Undertaking surveys on customers' level of satisfaction to improve the Company's service standards.
- Pursuant to ERC Resolution No. 42, series of 2006, the Company established a Consumer Welfare Desk (CWD) in its branches as well as a Consumer Assistance Office (CAO) in ERC. The CWD and the CAO are manned by CWD Officers who have undergone relevant training and are able to assist the customers.

Customer health and safety remain a priority of the Company. The Company promotes safety as a way of life by providing safe and healthy work environment to prevent accidents, injuries and other illnesses. As such, the Company's activities include:

- Development and continuous enhancement of health and safety program, which ensures a safe environment and guarantees a high standard of medical care and attention.
- Undertaking safety and health education for all employees, complemented by a very aggressive promotion program to enhance safety consciousness and safe practice for all customers and stakeholders.
- Taking part in an environmentally-friendly value chain by preventing pollution through the optimization of the use of natural resources, minimizing waste generated by processes, and being an active partner in reforestation.

- Maintaining a vibrant safety and health conscious organization, standard operating procedures for health and safety and an active pollution control and environmental protection program.
- Complying with all applicable safety, and environmental regulations and closely monitoring the state of well-being and safety of all customers and the public at-large.
- Considering customer safety, health, and environmental protection a right and responsibility of each and every Meralco employee.

Suppliers/Contractors

The Company engages the services of suppliers that advocate the same corporate governance standards and business ethics to their respective officers and employees. The Company faithfully observes and implements its clearly detailed procurement and supplier selection policies and processes to secure mutual trust and strategic relationships, including economic, social, and environmental cooperation with its Suppliers and Contractors.

The following are the Company's activities aimed at implementing Supplier Business Conduct and Procurement Policies:

- All Company purchases are listed in a sourcing plan, which specifies the criteria and methods for sourcing these items.
- The sourcing plan undergoes review and approval of the Procurement hierarchy. Pre-bid conferences are held among the Company's procurement personnel, end-users and prospective bidders.
- Only accredited suppliers are qualified to inquire and participate in bids and awards.
 - ▶ The Vendor Accreditation Program ensures that all vendors who wish to supply Meralco are capable of providing quality goods or services, and have technical, commercial, and financial capability, adequate equipment and facilities, and good track record of service performance.
 - ▶ A prospective or new vendor may check online if Meralco has requirement for its product or service by referring to the "List of Products Needed" icon. If any of its product or services is needed, the prospective or new vendor may apply for accreditation online through the "On-line Application" icon and follow instructions indicated therein. Initial evaluation will be conducted and the vendor is advised on the next steps to follow which may include submissions



of additional documents and product samples. The final phase is the payment of non-refundable accreditation fee and the inspection of the office and facilities of the vendor. Regardless of the result of the evaluation, the applicant vendor will be formally advised.

- Purchases are made on the basis of competitive bidding – where the commercial and technical requirements are jointly evaluated.

More details on the Company's supplier/contractor selection practice of vendor accreditation, bidding, technical and commercial evaluation and awarding procedures may be found in the Suppliers section of the Company's website.

Creditors

The Company faithfully complies with all loan agreements with creditors; it ensures timely payment of these loans; and efficiently operates its business to assure creditors of the Company's healthy financial standing and loan payment capabilities.

Programs and Activities

The rights of creditors are protected by public disclosures of material information such as results of operations, systems of internal controls and regular assessment of risks to loan covenants and bonds. Periodic reports are made by the Company of its financial position through the submission of its quarterly and audited financial statements. Also, the Company conducts regular financial and operating results briefings.

Environment and Community

As an advocate of sustainable development, the Company is committed to operate profitably within the bounds of its social and environmental responsibility. Its commitment is expressed in six (6) advocacies, through the One Meralco Foundation, Inc. (<http://www.onemeralcofoundation.org/>):

Community Electrification

This advocacy pillar develops feasible electrification alternatives through workable socialized schemes for various community beneficiaries such as (1) off-grid public schools in remote island and mountain villages, in partnership with Local Government Units (LGUs), Non- Government Organizations (NGOs), local electric cooperatives, and other community institutions; (2) portions of resettlement areas where informal settlers such as families formerly residing along the Pasig River, railroad tracks and privatized government properties; and (3) other isolated communities endorsed by LGUs and NGOs.

Emergency Preparedness and Disaster Response

OMF lends the Company's experience and resources in emergency and disaster preparedness and response to support other distribution utilities and electric cooperatives and communities. This sharing of expertise and resources aims to further harness immediate and effective response to major emergency situations, natural calamities and disasters.

Employee Volunteerism

OMF engages employees of the Company to have a hand in nation-building by opening opportunities to these individuals to volunteer through the Makabayan Volunteerism Program (MVP).

It aims to make volunteerism opportunities move from transactional to transformational, gives avenues for Meralco employees to extend assistance to their less fortunate fellowmen embodying the corporate values of *Malasakit* (caring) and *Makabayan* (patriotic).

Energy Education Program

Launched in 2015, the Energy Education Program aims to provide learning programs and tools that will enable educators to teach energy-related concepts to their students. Designed to complement the Community Electrification Program, the program encourages deeper understanding of energy principles and concepts, and promotes efficient and responsible use of this valuable resource.

Grassroots Partnerships

OMF continues its commitment towards strong partnerships with LGUs and barangays by providing appropriate support for certain local community needs such as health, sanitation, environmental protection, sports and education. Through the Grassroots Partnerships program, the Foundation is able to nurture public safety, promote responsible stewardship among residents and spur growth and development in their communities.

Youth and Sports Development

OMF believes in the capabilities of today's youth as they take on the challenge of being future leaders of society. By enjoining the youth through programs rooted in academic excellence, sports engagement and values formation, the Foundation hopes to make the youth self-sufficient as they reach their full potential as persons and be productive citizens of the country.



In 2015, Meralco employee-volunteers devoted their time, skills and effort in various volunteerism projects and together logged a total of more than 20,000 hours of dedicated service to the communities. The employees engaged in a bamboo planting activity along Marikina River and Tullahan Riverbanks to help reduce soil erosion. Moreover, they took part in the “Back to School” campaign which helped 5,000 schoolchildren in the franchise area. OMF supported the “One Child, One Lamp” Program spearheaded by the Department of Education by donating more than 2,000 solar lamps to un-energized communities.

A more comprehensive report on the Company’s CSR efforts is found in a separate publication, the OMF’s 2015 Annual Report.

Anti-corruption Programs and Procedures

The Company’s Standards of Business Conduct and Ethics (Code of Ethics) outlines its ethical conduct towards the environment, community, society, and the country. It prescribes ethical values and behavioural standards, which all directors, officers, and employees of the Company are required to comply with in the performance of their respective duties and responsibilities. The level of awareness and understanding of these standards by the officers and employees is constantly monitored and enhanced at all levels via the respective line organization and the Company’s various communication media. Copies of the Code of Ethics are likewise regularly disseminated to all employees. A written commitment to corporate governance and the Company’s Code of Ethics is required to be submitted annually by all directors, officers, and employees of the Company.

The Policy on Solicitation and Acceptance of Gifts prohibits the acceptance of gifts offered and given by suppliers, contractors, and other third parties to prevent all directors, officers, and employees from putting themselves in situations that could affect the fair, objective and effective performance of their duties and responsibilities.

The Management Control Policy prescribes Management’s responsibility to ensure a system of checks and balances and emphasizes the importance of internal control processes as an integral part of the Company’s governance system and risk management. Effective management control is necessary to ensure that behavior and decisions of people in the organization are consistent with the Company’s objectives and strategies.

The Company enhances awareness and monitors compliance through an online HR Express Corporate Governance Facility, accessible to all employees for the CG disclosures and commitment required of them. Failure to comply with CG disclosures is sanctioned accordingly.

The Corporate Governance Office (CGO) monitors the implementation of and compliance to the Code of Ethics. All directors, senior management and employees are required to submit duly accomplished FBID Forms and COI Forms annually. They are also required to disclose gifts they received from third parties. The Company, from time to time, issues advisories on restrictions in trading of Company’s shares for all directors, senior management and employees. In addition, the E-report Mo facility (Whistleblowing facility) is made available as a channel of reporting violations of the Company’s Code of Ethics.

The Company’s Internal Audit Office audits the compliance of directors, officers, and employees to the Code of Ethics and other corporate governance related policies, including required Company disclosures. The result of the Internal Audit review is reported to the Audit Committee responsible for reviewing the process for communicating the code of conduct to all employees and monitoring their compliance thereto.

C.2. Effective Redress for Violation of Stakeholders’ Rights and Means of Communication of Illegal or Unethical Practices by Employees

E-Report Mo (Whistleblowing Policy/Anti-Corruption Programs and Procedures) encourages the reporting of any violation of corporate governance rules or policies, questionable accounting or auditing matters, and other malfeasance committed by the Company’s directors, officers, and employees. Employees, suppliers, customers, other stakeholders, and the general public are allowed to freely communicate with the Company in good faith through the contact information of CGO stated herein.

Corporate Governance Office

Manila Electric Company (Meralco)
8th Floor, Lopez Building
Meralco Compound, Ortigas Avenue
Brgy. Ugong, Pasig City, 1605 Philippines
Tel. (632) 1622 2798
Mobile: 09189483662
Email: cgo.staff@meralco.com.ph

The Company provides appropriate protection against retaliation to an employee/stakeholder who reports illegal/unethical behaviour. In the event of retaliation, the reporting person or witness may file a report to the CGO by filling out a Retaliation Protection Report Form. Protection from retaliation will be granted, upon endorsement of the CGO, and review by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, his designated representative or the Chairman of the Board.

In 2015, the Company received reports of violations and illegal/unethical behavior. These reports were investigated according to the evidence provided and the procedures defined in the whistleblowing policy. Of these reports, 80% has been resolved. Investigations are on-going for the remainder.

The foregoing policies were distributed to all offices and are available to all stakeholders through the Company's Corporate Governance Intranet Portal and website (www.meralco.com.ph).

Employees

C.3 Performance-enhancing Mechanisms for Employees

Employee Development Programs

The Company provides its employees with opportunities for learning and development, fair and competitive remuneration and programs to promote health and safety. The Company devotes conscious effort to build a culture of excellence, knowledge sharing and personnel integrity and development.

The Company's training program includes specific courses on business and personal development and a Management Trainee Course (Power Innovators) to develop future leaders. In 2015, the average training man-hours is at 45 hours per person.

Environment, Health & Safety Programs

Environment, Health & Safety (EHS) Programs have been made in the interest of the safety of employees as well as the public. Employee cooperation in the observance and enforcement of these rules ensure safety of the employees, customers, suppliers and contractors, the Company's equipment and facilities, and the public at-large.

The Safety and Environment Management Office conducts studies, researches, tests, and the like relative to safety and loss control/accident prevention. Employees coordinate the accident prevention/loss control efforts within the scope of their responsibilities in accordance with the Company's Safety Program to prevent accidents.

Earthquake and fire drills are regularly conducted for buildings occupied by Corporate Offices, Business Centers and Sectors.

Safety Officers are appointed to identify and appraise potential safety hazards and recommend corrective measures. They assist in the administration of safety programs and investigate work-related accidents and public accidents involving company property as deemed necessary.

Every employee is issued a copy of the EHS Code by Safety and Environment Management Office upon employment. Employees are expected to carefully study and observe the rules in the performance of their duties. Safety rules shall be obeyed and ignorance will not be accepted as an excuse for their violation.

All employees are encouraged to make suggestions regarding the rules or working conditions to promote safety in the Company. Suggestions may be submitted to Safety and Environment Management Office or the concerned Environment, Safety and Health Committee.

MERALCO LEADERSHIP DEVELOPMENT CURRICULUM

Group	Curriculum Focus
Directors President & CEO	Strategy, Profitability and Competitive Advantage; Value Chain Development
Senior Management	Entrepreneurial Mindset; Cross-Functional Collaboration
Middle Management	Innovation and Improvement; Understanding and Conveying Strategies and Vision
First Line Management	Data Analytics; Excellent Execution; Team Performance
Individual Contributor	Personal Mastery and Self-Leadership

Meralco's 2015 Lost Time Injuries Frequency (LTIF) of 0.29 is better than the most recent global LTIF benchmark of 0.36. The Company has undertaken pro-active safety activities and programs currently in full swing: e.g. visibility requirement of Safety and Environment Management Engineers through field inspections; revival of the Safety Meetings in the Business Centers; Public Safety initiatives through pocket sessions conducted in building work sites, among others.

Compensation Philosophy/Principles

The Company's performance management process assesses employee performance on the basis of: (1) actual vs. desired results, and (2) how results were delivered in the light of corporate core values. Therefore, the achievement of financial and non-financial measures is reflected in performance planning and assessment which drives the Company's merit and incentive pay programs.

The Company implements short-term and long-term incentive programs to attract, retain, and motivate its employees. The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets. It also provides for short-term incentives through variable pay, such as Annual Performance-Based Bonuses (APB) and Variable Incentive Plan (VIP), to reward individual and team performance that contribute to the achievement of corporate goals and objectives.

The Company provides for assessment that accounts for performance beyond short-term financial measures such as the Balanced Scorecard system. The Balanced Scorecard provides a balanced view of the Company's performance as it monitors both the Company's financial and non-financial performance vis-à-vis the strategic goals.

Long-term incentives include additional compensation conditioned on Meralco's achievement of specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three year period as well as executives' attainment of a minimum level of performance rating.

Succession Planning of CEO and Senior Management

The Company's Board and the Remuneration and Leadership Development Committee are responsible

for overall guidance and direction on succession planning and leadership development of the President & CEO and Senior Management. The President & CEO, working closely with the Head of Human Resources, drives the strategy for succession planning, leadership development, and talent management. The Head of Human Resources develops and implements the processes and the tools to ensure robust pools of succession candidates for the President & CEO, Senior Management, Middle Management and First Line Management.

A key feature of Meralco's succession planning process is the talent review conducted at the Senior Management level and at various levels of the organization. Currently, this has resulted in a pool of about 30 candidates who, subject to the realization of their development plans, could become management committee members within the next five (5) years. The talent reviews have been a hallmark of Meralco's process and is a best-in-class talent management practice. The process deliverables are individual development plans designed to bring key talents to higher levels of performance and accountability. It involves authentic and extensive management discussions and deliberations by leaders on the aspirations, strengths, development needs, and challenges of key talents.

All of these have created a development mindset throughout the organization and have established a strong and robust leadership pipeline that will adequately meet Meralco's senior leadership requirements well into the future.

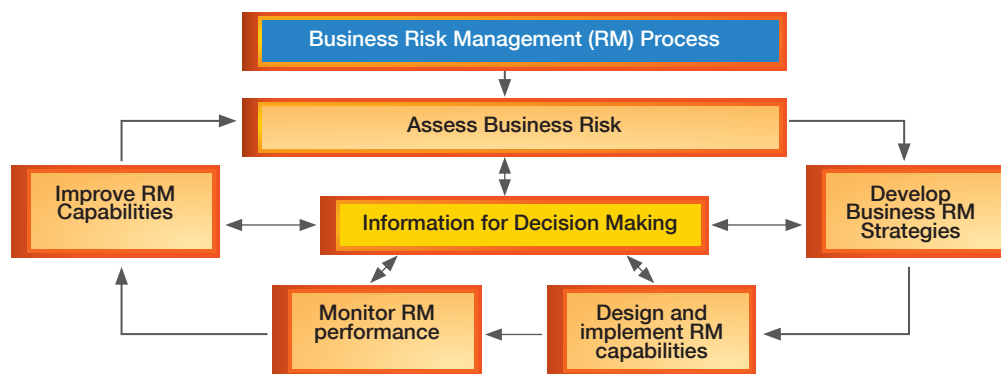
D. DISCLOSURE AND TRANSPARENCY

D.1 Transparent Ownership Structure

The following stockholders directly own more than 5% of the Company's (MER) shares as at December 31, 2015.

Name of Shareholder and Beneficial Owner	Total Shares ³	% to Total Share ³
Principal Stockholder		
Beacon Electric Asset Holdings, Inc.	394,059,235	34.96%
JG Summit Holdings, Inc.	305,689,397	27.12%
Metro Pacific Investments Corporation	169,064,807	15.00%
TOTAL	868,813,439	77.08%

D.2 Framework for Management of Major Business Risks



The framework above is the approach followed for managing the key risks of the Company, namely: a) financial risks; b) operational risks; c) regulatory and compliance risks; d) reputational risks; and e) strategic and corporate risks.

D.3 Disclosure of Related Party Transactions (RPT)

The Company discloses the names of all related parties, degree of relationship, nature and value for each material/ significant RPT. Details are found in Note 23 to the Consolidated Financial Statements.



D.4 Directors' and Officers' Dealings in Company Shares

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS as at December 31, 2015

(As disclosed to the SEC/PSE/PDEx on January 12, 2016)

Name	Beginning Balance ¹	Buy ²	Sell ²	Ending Balance	Direct Holdings ³	Indirect Holdings ³	Total Shares ³	% to Total Share ³
A. Directors								
1. Manuel V. Pangilinan – Chairman	25,000	–	–	25,000	25,000	–	25,000	0.00%
2. Lance Y. Gokongwei - Vice-Chairman	10	–	–	10	10	–	10	0.00%
3. Oscar S. Reyes - President & CEO	268	–	–	268	268	–	268	0.00%
4. Ray C. Espinosa	21,000	–	–	21,000	21,000	–	21,000	0.00%
5. James L. Go	10	–	–	10	10	–	10	0.00%
6. John L. Gokongwei, Jr.	10	–	–	10	10	–	10	0.00%
7. Napoleon L. Nazareno	1,210	–	–	1,210	1,210	–	1,210	0.00%
8. Jose Ma. K. Lim	10	–	–	10	10	–	10	0.00%
9. Manuel M. Lopez	996,118	–	–	996,118	996,118	–	996,118	0.09%
Manuel M. Lopez &/or Ma. Teresa Lopez	1,449,293	–	–	1,449,293	1,449,293	–	1,449,293	0.13%
10. Pedro E. Roxas	1,000	–	–	1,000	1,000	–	1,000	0.00%
11. Artemio V. Panganiban	1	–	–	1	1	–	1	0.00%
TOTAL	2,493,930	–	–	2,493,930	2,493,930	–	2,493,930	0.22%

¹Based on the January 13, 2015 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2014.

²Based on the SEC/PSE/PDEx Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2015.

³Based on the January 12, 2016 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2015.

⁴Appointed Vice Presidents of the Company effective January 1, 2015.

Name	Beginning Balance ¹	Buy ²	Sell ²	Ending Balance	Direct Holdings ³	Indirect Holdings ³	Total Shares ³	% to Total Share ³
B. Executive Officers with shareholdings in the Company								
1. Simeon Ken Ferrer - Corporate Secretary	767	–	–	767	767	–	767	0.00%
2. Roberto R. Almazora	93,082	–	–	93,082	93,082	–	93,082	0.01%
3. Alfredo S. Panlilio	668	–	–	668	668	–	668	0.00%
4. Angelito D. Bermudo	–	–	–	–	–	–	–	0.00%
5. Ramon B. Segismundo	6,500	–	–	6,500	6,500	–	6,500	0.00%
6. Betty C. Siy-Yap	–	–	–	–	–	–	–	0.00%
7. Ferdinand C. Alejandro ⁴	8,952	–	–	8,952	8,952	–	8,952	0.00%
8. Rafael L. Andrada	20,000	–	–	20,000	20,000	–	20,000	0.00%
9. Ruben B. Benosa	30,492	–	7,500	22,992	22,992	–	22,992	0.00%
10. Rolando M. Cagampan ⁴	20,976	–	20,976	–	–	–	–	0.00%
11. Benjamin U. Cusi ⁴	24,050	–	–	24,050	24,050	–	24,050	0.00%
12. Helen T. de Guzman	26,093	–	–	26,093	26,093	–	26,093	0.00%
13. Ivanna G. dela Peña	26,731	–	5,731	21,000	21,000	–	21,000	0.00%
14. Aaron A. Domingo	–	–	–	–	–	–	–	0.00%
15. William S. Pamintuan	–	–	–	–	–	–	–	0.00%
16. Antonio M. Abuel, Jr.	10,427	–	–	10,427	10,427	–	10,427	0.00%
17. Ireneo B. Acuña	18,355	–	–	18,355	18,355	–	18,355	0.00%
18. Ronnie L. Aperoch	14	–	–	14	14	–	14	0.00%
19. Angelita S. Atanacio	1,000	–	1,000	–	–	–	–	0.00%
20. Bennette D. Bachoco	–	–	–	–	–	–	–	0.00%
21. Edgardo V. Carasig	–	–	–	–	–	–	–	0.00%
22. Marthyn S. Cuan	2,150	–	2,150	–	–	–	–	0.00%
23. Lawrence S. Fernandez ⁴	4,500	–	–	4,500	4,500	–	4,500	0.00%
24. Ferdinand O. Geluz	13,877	–	–	13,877	13,877	–	13,877	0.00%
25. Victor Emmanuel S. Genuino	–	–	–	–	–	–	–	0.00%
26. Nixon G. Hao	2,791	–	–	2,791	2,791	–	2,791	0.00%
27. Ernie G. Imperial	460	–	–	460	460	–	460	0.00%
28. Dexter C. Lee	–	–	–	–	–	–	–	0.00%
29. Fortunato C. Leynes	6,000	–	–	6,000	6,000	–	6,000	0.00%
30. Raymond B. Ravelo	–	–	–	–	–	–	–	0.00%
31. Jose Rainier A. Reyes	–	–	–	–	–	–	–	0.00%
32. Nestor P. Sarmiento	323	–	–	323	323	–	323	0.00%
33. Liza Rose G. Serrano Diangson	38,983	–	4,000	34,983	34,983	–	34,983	0.00%
34. Manuel Lorenzo L. Tuason	22,180	–	–	22,180	22,180	–	22,180	0.00%
35. Jose Antonio T. Valdez	–	–	–	–	–	–	–	0.00%
36. Jose Ronald V. Valles ⁴	–	–	–	–	–	–	–	0.00%
TOTAL	379,371	–	41,357	338,014	338,014	–	338,014	0.01%

PRINCIPAL, STRATEGIC AND SUBSIDIARIES/AFFILIATES SHAREHOLDINGS as at December 31, 2015 D.1.1, D.1.2

Name	Starting Balance ¹	Buy ²	Sell ²	Ending Balance ³	Direct ³	Indirect Holdings ³	Total Shares ³	% to Total Share ³
A. Principal Stockholder								
Beacon Electric Asset Holdings, Inc.	506,769,106	–	112,709,871	394,059,235	394,059,235	–	394,059,235	34.96%
JG Summit Holdings, Inc.	305,689,397	–	–	305,689,397	305,689,397	–	305,689,397	27.12%
Metro Pacific Investments Corporation	56,354,936	112,709,871	–	169,064,807	169,064,807	–	169,064,807	15.00%
TOTAL	868,813,439	112,709,871	112,709,871	868,813,439	868,813,439	–	868,813,439	77.08%
B. Strategic Stockholder								
First Philippine Holdings Corporation	44,382,436	–	–	44,382,436	44,382,436	–	44,382,436	3.94%
First Philippine Utilities Corporation	93,270	–	–	93,270	93,270	–	93,270	0.01%
TOTAL	44,475,706	–	–	44,475,706	44,475,706	–	44,475,706	3.95%
C. Subsidiaries/Affiliates with Shareholdings in the Company								
Corporate Information Solutions, Inc.	12,526	–	–	12,526	12,526	–	12,526	0.00%
TOTAL	12,526	44,475,706	–	12,526	12,526	–	12,526	0.00%

D.5 Audit Fees

Internal Audit

The MCG and the Corporate Audit Charter mandates the Internal Audit to monitor the financial reporting process and internal control system; information technology security and control; auditing process; enterprise risk management; and compliance.

An annual assessment using a risk-based audit plan approved by the Audit Committee (AuditCom) and the Risk Management Committee on the adequacy of the Company's internal control system is undertaken by the Internal Audit in cooperation with relevant business responsibility units. The Internal Audit reports the results of audits covering various units of the Company and its subsidiaries including specific areas of concern identified by Management to the AuditCom. The findings are reviewed by the AuditCom and the Risk Management Committee – which in turn, report the same to the Board for guidance and/or appropriate action. Significant concerns, which have been reported by the internal audit group, and the implementation of responsive remedial measures, are monitored by Management and by the AuditCom. The AuditCom Report in this Annual Report discloses that the board of directors has

conducted a review of and has found adequate the Company's material controls (including operational, financial and compliance controls) and risk management systems.

The Company's Internal Audit Group is headed by the Chief Audit Executive and First Vice President, Ms. Helen T. de Guzman, who reports functionally to the AuditCom and administratively to the President & CEO as outlined in the Company's Corporate Audit Charter. The appointment and removal of the internal auditor require the approval of the AuditCom.

External Audit

The Company's external auditors, SyCip Gorres Velayo & Co. (SGV) were evaluated, nominated and recommended for appointment including their audit fees by the AuditCom, and such recommendation was approved by the Board. The re-appointment of SGV was thereafter confirmed by the shareholders in the AGM held on May 26, 2015.

¹Based on the January 13, 2015 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2014

²Based on the SEC/PSE/PDEx Disclosures on Statement of Beneficial Ownerships for the year ended December 31, 2015

³Based on the January 12, 2016 SEC/PSE/PDEx Disclosure on Public Ownership Report as of December 31, 2015

CONSOLIDATED EXTERNAL AUDITOR'S FEES*

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (in million PhP)		
	2015	2014
Financial Statements Audit	7.1	7.0
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC	0.3	0.3
Total	7.4	7.3

The non-audit services do not exceed the audit services. In fact, no non-audit services were performed by the external auditors in 2015.

* Exclusive of Value-added Tax (VAT)

D.6 Medium of Communication

Quarterly Reports

The Company reports its quarterly and full year financial results through the SEC, PSE and PDEX to provide the shareholders, the investors, and the public a balanced and informed assessment of the Company's performance, position and prospects.

Quarterly Reports: <http://www.meralco.com.ph/investor-relations/quarterly-reports>

Financial Results: <http://www.meralco.com.ph/investor-relations/financial-results>

Annual Reports: <http://www.meralco.com.ph/investor-relations/annual-reports>

Analysts Briefings and Media Briefings

The officers of the Company, led by the President & CEO, with the CFO and Investor Relations and other Officers, present information on performance results, business

progress, industry trends, impact of external factors and regulations to shareholders, analysts, investors, and media every quarter during Analysts' and Media Briefings. Presentation materials used in these meetings are posted on the Company's website to ensure comprehensive information dissemination to all stakeholders and investors, including those who were not able to participate in the briefings.

Schedule of Events: <http://www.meralco.com.ph/investor-relations/calendar-of-events>

Press Releases: <http://www.meralco.com.ph/investor-relations/press-releases>

Company Website

The Company website provides information on our products and services as well as the following corporate governance information:

Section	Link
Business Operations	http://biz.meralco.com.ph/ http://corporatepartners.meralco.com.ph/ http://www.meralco.com.ph/news
Financial Statements/Reports	http://www.meralco.com.ph/investor-relations/financial-results http://www.meralco.com.ph/investor-relations/quarterly-reports
Materials provided in briefings to analysts and media	http://www.meralco.com.ph/investor-relations/press-releases
Shareholding structure	http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Group corporate structure	http://www.meralco.com.ph/about-us/organizational-structure http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Downloadable Annual Report	http://www.meralco.com.ph/investor-relations/annual-reports
Notice of AGM	http://www.meralco.com.ph/company-disclosures/notice-of-annual-or-special-stockholders-meetings
Minutes of AGM	http://www.meralco.com.ph/company-disclosures/minutes-of-all-general-or-special-stockholders-meetings
Company's By-Laws and Articles of Incorporation	http://www.meralco.com.ph/about-us/articles-of-incorporation-and-by-laws

D.7 Timely Filing/Release of Annual/Quarterly Financial Reports

The Company's 2015 Audited Financial Statements were released on February 26, 2016, 57 days after financial year-end. The true and fair representation of the annual financial reports are affirmed by the Board through the Chairman, President & CEO and CFO of the Company on the Statement of Management's Responsibility section of this Annual Report. This can be accessed at: http://corporate-downloadables-sec-filings.s3.amazonaws.com/02292016_Consolidated_Financial_Results.pdf

D.8 Investor Relations

Investors may get in touch with the Company's Investor Relations Office located at the 5/F of Lopez Building on, Ortigas Avenue, Barangay Ugong Pasig City, 1605 Philippines with the e-mail address: investor.relations@meralco.com.ph.

E. RESPONSIBILITIES OF THE BOARD

The Board of Directors is responsible for setting the Company's vision, mission, overall strategic directions, corporate objectives, and long-term goals and ensures that obligations to shareholders and all stakeholders are understood and met.

VISION

TO BE A WORLD CLASS COMPANY AND THE SERVICE PROVIDER OF CHOICE

MISSION

TO PROVIDE OUR CUSTOMERS THE BEST VALUE IN ENERGY, PRODUCTS AND SERVICES

CORPORATE OBJECTIVES

- I. STRENGTHEN THE CORE DISTRIBUTION BUSINESS
- II. BUILD THE POWER GENERATION PORTFOLIO
- III. PARTICIPATE IN RETAIL ELECTRICITY SUPPLY
- IV. GROW THE ELECTRIC DISTRIBUTION SERVICE AREA
- V. DRIVE THE EXPANSION OF SUBSIDIARIES

It is the Board's mandate to enhance shareholder value by fostering the long-term success of the Company, and sustaining its competitiveness and profitability in a manner consistent with its vision, mission and corporate objectives.

The Board promulgates the Company's MCG which provides the framework of good governance and ethical business practices that the Company's directors, officers and employees are expected to observe and adhere to in its dealings with various stakeholders. Management ensures that the operations of the Company are aligned with the MCG. The MCG conforms to regulations set forth by the SEC, the PSE, PDEX and other relevant regulatory bodies.

The MCG is reviewed annually to ensure that it is up to date with local and international best practices, as well as relevant to the Company's strategic direction.

The MCG further mandates the Board to formulate and annually review the Company's vision and mission statement, strategic objectives, key policies and the mechanism for performance assessment of the Board and Management, principally the President & CEO.

In its regular meeting held on February 23, 2015 as part of the Board's assessment of their performance in the past year, the Board reviewed and confirmed the vision, mission, and corporate strategic objectives of the Company. In the same meeting, the Board also reviewed the Company's material controls (including operational, financial and compliance controls) and risk management systems. The Board further confirmed the Company's full compliance with the code of corporate governance.

The Board of Directors adopts a process of selection that encourages diversity and ensures a mix of competent directors and officers, without regard to gender, race, religion, or age.

The Nomination and Governance Committee (Nom&Gov) reviews the nomination, selection, and composition of the Board and affirms that its membership has a proper mix and diversity of qualifications, background, experience, independence and skills needed to effectually perform its responsibilities. The Company has a non-executive director who has had prior work experience in the sector or broad industry group to which the Company belongs. Ambassador Manuel M. Lopez was the Chairman, President & CEO of the Company in different periods from 2001 to 2010. In accordance with the Securities Regulation Code, the Company has an 11-seat Board, two (2) of whom are Independent and Non-Executive Directors namely Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas.

The Nom&Gov ensures that independent decision-making is encouraged and that no individual director dominates the Board's decision-making. The Non-Executive Directors actively participate in discussions at the Board and Board Committee levels, as well as with Management.

On March 9, 2015, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed independent of the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment. The Nom&Gov has reviewed the multiple board representations held presently by the Directors and assessed that they are reasonable and do not hinder in any way, the performance of their duties to the Company.

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and to oversee the performance of the Board and its directors. He champions exemplary ethical governance principles

for directors, officers, and employees to emulate and likewise espouse. Together with President & CEO, Mr. Oscar S. Reyes, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets a clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise and ensures that the Board exercises strong oversight over the Company and its Management, such that the prospect of any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the MCG which is accessible at the Company's website.

The Board of Directors reviews and approves major projects, policy decisions, annual budgets, major investment funding and major restructuring of core businesses.

The Board jointly plans meeting dates at the start of the calendar year, meets regularly once a month, and holds special meetings as may be required.

2015 AGM and Board Meeting Attendance

Director	Designation	May 26, 2015		Board Meetings
		Annual General Meeting	Organizational Meeting	
Manuel V. Pangilinan ¹	Chairman	Present	Present	12/12
Lance Y. Gokongwei	Director	Present	Present	12/12
Oscar S. Reyes	Director	Present	Present	12/12
Ray C. Espinosa ²	Director	Present	Present	12/12
James L. Go	Director	Present	Present	11/12
John L. Gokongwei Jr.	Director	Present	Absent	12/12
Napoleon L. Nazareno	Director	Present	Present	11/12
Jose Ma. K. Lim	Director	Present	Present	10/12
Manuel M. Lopez	Director	Present	Present	12/12
Pedro E. Roxas ⁴	Independent Director	Present	Present	11/12
Artemio V. Panganiban ³	Independent Director	Present	Present	12/12

¹Chairman, Remuneration and Leadership Development Committee

²Chairman, Finance Committee

³Chairman, Audit Committee; Chairman, Risk Management Committee

⁴Chairman, Nomination and Governance Committee



In 2015, the Board's major accomplishments included the following:

Major Projects/Policy Decisions

- Study on the SEC's Draft Corporate Governance Blueprint
- Evaluation of compliance to ERC requirements
- Assessment of National Power Supply Projection
- Review and Approval of corporate strategic objectives
- Review of the implementation of corporate strategy
- Approval of Audited Financial Statements
- Review and Approval of the Related Party Transactions IRR
- Review and Approval of construction and development of substation assets
- Review of forecast of Subsidiaries' projects
- Conduct of the 2015 Annual Stockholders Meeting
- Appointment of Inspectors and Canvassers for Annual Stockholders' Meeting ballots
- Completion of Enterprise Asset Management (EAM) Project
- Review and Approval of power generation projects
- Updates on other local and international business initiatives
- Review and Approval of Public Private Partnerships and Relocation Projects
- Review and Approval of new Interim Power Supply Agreements and PSAs
- Screening of nominees to the Board of Directors
- Review and Approval of Employee Performance Management Plan and Long Term Incentive Plan
- Review and Approval of executive promotions, rightsizing policy and succession planning
- Approval of Internal Policy on Unstructured Disclosures
- Board, Board Committee, and President & CEO Assessment
- Approval of Consolidated changes in the Annual Corporate Governance Report (ACGR) and the ACGS Self-Assessment
- Enterprise Performance Evaluation and Assessment
- Approval of the report of external auditors covering the Company's Audited Financial Statements
- Approval of 2016 Schedule of Board Meetings

Annual Budgets

- Approval of short and medium term business plans and budget
- Budget realignment for certain services
- Investment Committee Report
- Proposed CAPEX for Regulatory Year 2016

Major Investment Fundings

- Infusion of equity to subsidiaries
- Partial divestment from a joint venture
- Renewal of credit lines, credit facilities and bonds

In 2015, the Company's non-executive directors met 11 times without the presence of the executive director, Mr. Oscar S. Reyes. The agenda in these meetings were the Management's reports, corporate governance directions, reports of the internal and external auditors, and the performance assessment of the President & CEO.

Corporate Secretary

All Board members have direct and independent access to the Corporate Secretary as well as Management. The Corporate Secretary, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and Non-Executive Directors. He also facilitates the orientation and assists with the professional development of Directors as required by regulators.

Among the duties of the Office of the Corporate Secretary are the following:

- Schedule Board meetings and other related activities and notify the Board accordingly;
- Provide the necessary board papers associated with items on the meeting agenda at least five (5) business days ahead of the Board meetings;
- Provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board;
- Assist the Board in the performance of its duties;
- Attend all board meetings, take the minutes of meetings and maintain records of the same and ensure proper safekeeping of all board papers;
- Ensure that all board procedures, rules, and regulations are faithfully followed;
- Submit required reports and disclosures to SEC, PSE, PDEx and other regulatory agencies; and
- Conduct orientation program for new members of the Board regarding the Company's organizational structures and business operations.

The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer met the following qualifications and skills required for his position:

- Resident Filipino citizen of good moral character;
- With adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills;
- Attends continuing education seminars where he receives regular updates of the laws, rules and regulations relevant to his duties;
- With working knowledge of the operations of the Company and loyal to the Company's mission, vision and corporate objectives.

Board Committees

The Board has formed various Board Committees, namely Executive Committee ("ExCom"), AuditCom, Risk Management Committee, Nom&Gov, Remuneration and Leadership Development Committee and FinCom. The Board has delegated specific responsibilities to each of these Committees. These Committees have been formed and are guided by their specific terms of reference or charters.

The functions, authority and responsibilities of each Board committee and their accomplishments are as follows:

A. Executive Committee (ExCom) is composed of six (6) directors, one of whom is an independent director. The ExCom may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code.

In 2015, the Executive Committee accomplished in its meeting:

- Review of Power Supply Outlook
- Evaluation of a joint undertaking
- Investment in a power plant

B. Remuneration and Leadership Development Committee (RLDC) is composed of four (4) directors, one of whom is an independent director. The duties and responsibilities of RLDC as defined in its charter include assistance to the Board in the development of the Company's overall performance management, compensation, retirement and leadership development policies and programs based on the Company-approved philosophy and budget.

RLDC had four (4) meetings in 2015 to discuss:

- Proposed changes in Performance Management Process
- Long-term Incentive Plan (LTIP)
- Rank Conferment/Nomination for Key Officers
- Annual Bonus Plan
- Succession planning programs
- Performance evaluation of President & CEO

2015 Board Committee Meeting Attendance

Member	Executive	Nomination and Governance	Audit	Risk Management	Remuneration and Leadership Development	Finance
Manuel V. Pangilinan ¹	1/1	N/A	N/A	N/A	4/4	N/A
Lance Y. Gokongwei	1/1	3/4	7/8	1/1	3/4	N/A
Oscar S. Reyes	N/A	N/A	N/A	N/A	N/A	N/A
Ray C. Espinosa ²	N/A	N/A	N/A	N/A	N/A	11/11
James L. Go	N/A	3/4	4/8	0/1	N/A	10/11
John L. Gokongwei Jr.	1/1	N/A	N/A	N/A	N/A	11/11
Napoleon L. Nazareno	1/1	3/4	N/A	N/A	4/4	N/A
Jose Ma. K. Lim	1/1	4/4	5/8	1/1	N/A	N/A
Manuel M. Lopez	N/A	N/A	N/A	N/A	N/A	11/11
Pedro E. Roxas ⁴	N/A	4/4	7/8	1/1	4/4	10/11
Artemio V. Panganiban ³	1/1	N/A	8/8	1/1	N/A	N/A
Anabelle L. Chua ²	N/A	N/A	7/8	1/1	N/A	10/11

¹C1 Independent Director

²Non-Voting Member

Details of 2015 Board Remuneration (in PhP)

Director	Remuneration for AGM and Board Meetings Attended	Remuneration for Committee Meetings	Total
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,440,000	-	1,440,000
EXECUTIVE DIRECTOR	1,440,000	-	1,440,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,440,000	100,000	1,540,000
Lance Y. Gokongwei	1,440,000	280,000	1,720,000
Manuel M. Lopez	1,440,000	240,000	1,680,000
Ray C. Espinosa	1,440,000	220,000	1,660,000
John L. Gokongwei, Jr.	1,440,000	240,000	1,680,000
Jose Ma. K. Lim	1,200,000	180,000	1,380,000
James L. Go	1,440,000	340,000	1,780,000
Napoleon L. Nazareno	1,320,000	160,000	1,480,000
ALL NON-EXECUTIVE DIRECTORS	11,160,000	1,760,000	12,920,000
INDEPENDENT DIRECTORS			
Pedro E. Roxas	1,440,000	500,000	1,940,000
Artemio V. Panganiban	1,440,000	180,000	1,620,000
ALL INDEPENDENT DIRECTORS	2,880,000	680,000	3,560,000
GRAND TOTAL			17,920,000

The RLDC evaluates and proposes payment of Directors and Senior Executives' Fees for the approval of the shareholders and recommends to the Board a framework of remuneration and specific remuneration packages for Directors and key management, including the President & CEO.

For the sole Executive Director and key management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, options, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance. Independent, non-executive directors receive per diem fees based on their attendance to Board and Board Committee meetings. They do not receive options, performance shares or bonuses as these schemes ordinarily used in remuneration of management may impair their independence.

The Company's directors receive a per diem allowance for their attendance in the Board and Board Committee meetings. Each director is entitled to a per diem allowance of PhP120,000 for every board meeting attended and PhP20,000 for every committee meeting.

Remuneration of Key Management and Employees

The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key management's remuneration are subject to the review and approval of the RLDC.



The Top five (5) key officers of the Company have received an aggregate remuneration of PhP202 million. For more information on the aggregate total remuneration paid to all key officers, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to Consolidated Financial Statements.

Advisers/Consultants to Remuneration and Leadership Development Committee

Towers Watson is a leading human resources consulting firm which provides professional services that helps organizations improve performance through effective people management. At present, it offers solutions to the Company in the areas of employee engagement and compensation and benefits management.

C. Nomination and Governance Committee (Nom&Gov)

This Committee is composed of five (5) directors with an independent director as chairman. The duties and responsibilities of Nom&Gov as reflected in its charter includes screening qualified nominees for election as directors, assessing the independence of directors, introducing improvements on Board organization and procedures, setting-up of mechanisms for performance evaluation of the Board and Management, and providing programs for continuing education of the Board.

The Nom&Gov undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions. It reviews and recommends to the Board for the appointment of Directors and members to the Board Committees. The process involves identifying, reviewing, and recommending potential candidates to the Board for consideration.

The Nom&Gov has put in place a formal and transparent process for the nomination of new Directors to the Board. Stakeholders who have identified suitable candidates submit the Nomination and Acceptance Letters, Full Business Interest Disclosure Forms and Curriculum Vitae of such candidates to Nom&Gov for discussion and review on or before the deadline set by the Nom&Gov.

These candidates are sourced from the business network of Board members and from professional search firms such as the Institute of Corporate Directors (ICD). One of the Company's directors, who is also the President & CEO,

Mr. Oscar S. Reyes, is a Fellow of the ICD. The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer is also an ICD Fellow. These candidates would be skilled in core competencies such as strategic planning, business expertise, and industry knowledge.

The shareholders elect the directors during the Annual General Meeting of Shareholders (AGM) held every last Tuesday of May.

Upon appointment, the Company sends out a formal letter setting out the Director's roles and responsibilities and the new Director will then attend various briefings with Management.

The Nom&Gov Comm had four (4) meetings in 2015 to accomplish:

- Results and Discussion of Board, Board Committees, and President & CEO Performance Assessment
- Review of Company's Compliance with SEC Advisory on Recommended Corporate Governance Best Practices
- Assessment of Meralco's Public Ownership Report
- Screening of Nominees to the Board of Directors
- PSE Corporate Governance Guidebook
- ASEAN Corporate Governance Scorecard Results
- Update of Audit Committee Charter
- Review of the Company's Compliance with Corporate Governance Blueprint

D. Audit Committee (AuditCom) – The AuditCom consists of two (2) independent directors, and one (1) member who has over 20 years of experience in the areas of accounting, corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. for 10 years. The AuditCom is chaired by an independent director.

The AuditCom had eight (8) meetings in 2015 to discuss:

- Internal Control
 - ▶ Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system in accordance with the Management Control Policy
 - ▶ Evaluated the effectiveness of the internal control system of the Company based on information obtained from the external auditors and the reasonable assurance provided by the internal auditor on the financial and operating controls of the Company



- Financial Reporting
 - ▶ Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company including management's significant judgment and estimates in respect of the Company's financial statements and the management's representation to the external auditors
 - ▶ Recommended to the Board of Directors the approval of the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2015 and their consequent filing with the SEC and other regulatory bodies
- Audit Process
 - ▶ Assessed the independence, performance, and effectiveness of the External Auditors, taking into consideration the credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board of Directors as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on the rotation of External Auditors
 - ▶ Held executive sessions with the External Auditors without the presence of management
 - ▶ Reviewed the approved audit plan, scope of work and proposed fees of SGV for audit and other related services
 - ▶ Reviewed and approved the Annual Internal Audit Plan
 - ▶ Discussed the results of audits reported by the Chief Audit Executive in her quarterly reports to the Committee
 - ▶ Monitored the audit recommendations of the Internal Audit and discussed management's approach on corrective actions
 - ▶ Assessed Internal Audit's performance for the preceding year
- Compliance
 - ▶ Reviewed and assessed management's process of monitoring compliance with laws and regulations through Internal Audit
 - ▶ Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, SEC and other regulators concerned with environment and safety, labor and others

E. Risk Management Committee - consists of two (2) independent directors to assist the Board in its oversight role on the risk management process. The following activities were accomplished by the Committee:

- Reviewed management's top business risks and discussed ongoing risk treatments
- Noted management's short to medium term plans to streamline enterprise risk management integration in the annual strategic planning activities to institutionalize risk management functions at the subsidiaries and to develop a risk reporting dashboard that will facilitate reporting and monitoring of top risks and mitigation plans.
- Risk Management Strategy on a Subsidiary's international initiatives

The Board of Directors, through the Risk Management Committee, institutes a framework of prudent and effective controls which enables risks to be identified, assessed and managed accordingly.

F. Finance Committee (FinCom) – This Committee is composed of five (5) directors, one (1) of whom is an independent director, with the CFO as ex-officio member. It reviews the financial operations of the Company and matters regarding major purchase contracts, and acquisition and/or divestment of investments, businesses or ventures.

In its 11 meetings in 2015, its major accomplishments were:

- Review and Approval of all Service and Supply contracts in excess of PhP 50 Million
- Review of Quarterly and Audited Financial Statements
- Divestment of Investment in a Joint Venture
- Creation of Standby Credit Letters
- Treasury Update
- Declaration of Final Cash Dividend
- Renewal of credit lines and bonds
- Review of Investment Committee Report

The Board of Directors ensures that the Company complies with all relevant laws, regulations, and endeavor to adopt best business practices, including the requirement of SEC for all directors and key officers to annually attend a CG training with SEC-Accredited providers.

Attendance to Corporate Governance Training and Continuing Education Programs

Director	Program	Name of Training Institution
Manuel V. Pangilinan	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Governance Transformation in ASEAN: Reform and Priorities	ASEAN Capital Markets Forum (ACMF) and the SEC
Ray C. Espinosa	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA
Jose Ma. K. Lim	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services
Oscar S. Reyes	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA
Artemio V. Panganiban	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Corporate Governance Seminar on Financial Reporting and Audit	SGV & Co.
Pedro E. Roxas	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Corporate Governance Seminar on Financial Reporting and Audit	SGV & Co.
Manuel M. Lopez	SGV Seminar on Corporate Governance The Loft, 38th Floor, Manansala Tower, Rockwell Center, Rockwell, Makati	Leonardo J. Matignas Jr., SGV Partner
Lance Y. Gokongwei	Corporate Governance Seminar	SGV & Co.
James L. Go	SGV & Co. and Knowledge Institute 42 Floor Boardroom Robinsons Equitable Tower ADB Ave. cor. Poveda Road, Ortigas Center, Pasig City	Leonardo J. Matignas Jr., Partner
John L. Gokongwei, Jr.	Seminar on Corporate Governance	SGV & Co.
Napoleon L. Nazareno	Data and Information Rules: What the Board Should Know	Atty. Jose Jesus Disini, Managing Partner of Disini and Disini Law Office
	Cybersecurity in the 21st Century	Mr. Christopher Camejo, Director of Security Risk Assessment Services NTT Communications USA

Orientation and Continuing Education Programs

Each newly elected director is provided with a director's kit which contains policies that define his duties and obligations as a Director under the various laws and regulations. An in-house orientation program, incorporating briefings from the corporate and regulatory units are arranged for the new Director to better familiarize himself with the Company's businesses, stakeholders, regulatory environment, and governance practices.

The Company has a policy that encourages directors to attend on-going or continuous professional education programmes. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on October 30, 2015, entitled "Data and Information Rules: What the Board Should Know".

The Senior Management attended a joint Corporate Governance Enhancement Session for all First Pacific Group of Companies in the Philippines on October 29, 2015, entitled "Data and Information Rules: What Management Should Know."

The Board and Senior Management of the Company attended the ASEAN Corporate Governance Conference and Awards on November 14, 2015, entitled "Governance Transformation in ASEAN: Reforms and Priorities"

The Board of Directors assesses the Board, Management and financial performance of the Company.

Board, Committee and CEO Performance Assessment

The Board annually conducts a self-assessment of their performance individually, collectively, and as members of the different Board Committees. The self-assessment results are

key factors in the enhancement of directors' performance and effectiveness in their duties.

The Board conducted the performance assessment on February 23, 2015, through employment of the following assessment forms, with the following processes and criteria:

- 1. **Board Self-Assessment** - each director assessed the board performance as a whole and their individual performance on the following categories:
 - a) Board structure and qualifications
 - b) Board duties and responsibilities
 - c) Duties and Responsibilities as an Individual Director
- 2. **General Board Committee Performance Assessment** - each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters.
- 3. **Board Committee Self-Assessment** - each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange.
- 4. **President & CEO Performance Assessment** - each director assessed the President & CEO's leadership, working relations with the Board, communication and working relations with Management.

On the assessment forms, the Board gives its opinions and suggestions or identifies special issues of interest about its performance or different aspects of the Company's operation.

The CGO sends these assessment forms to every director, collects the completed forms, prepares a summary report, and submits it to the Nomination and Governance Committee and the Board as an agenda item for acknowledgment and discussion.

PERFORMANCE INDICATORS

FINANCIAL	NON FINANCIAL
<ul style="list-style-type: none">Measures reflecting the state of the Company to the shareholders such as cash position, core consolidated net income, dividend payouts, etc.	<ul style="list-style-type: none">Customer satisfaction metricsCustomers served per employee ratioAlignment of business processes to the strategies of the CompanyAlignment of learning and development initiatives with Company goals