



Related Party Transactions Policy

(December 2013 Version)

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Section: Corporate Governance		Effectivity Date: January 1, 2014	
Subject: Policy Statement		Sensitivity Classification: Company Use	

I. POLICY STATEMENT

It is the policy of Meralco (the “Company”) that all transactions between the Company and Related Parties are done in “fair and at arm’s length” terms and inures to the benefit and best interest of the Company and its shareholders as a whole, considering relevant circumstances. All transactions with Related Parties shall be conducted in accordance with the principles of transparency and fairness, and in this regard shall be properly approved and disclosed in accordance with this Policy.

II. DEFINITION OF TERMS

For the purpose of this Policy, the following definition of terms shall apply:

1. **Related Party**¹ - a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’). Refer to **Annex A** on page 5 for instances of a related party.
2. **Related Party Transaction (RPT)**¹ –a transfer of resources, services or goods between a reporting entity and a related party, regardless of whether a price is charged.
3. **Material/Significant Related Party Transaction** - any RPT determined by the Audit and Risk Management Committee (AuditCom) to be potentially or actually significant to the Company. The aggregate amount of RPT under consideration, within the preceding twelve (12) month period, shall be among the aspects considered in determining the materiality of such.
4. **Close members of the family** of a person¹ – family members who may be expected to influence, or be influenced by, that person in his dealings with the entity.
5. **Associate** - an entity over which an investor has significant influence.
6. **Control**² of an investee - an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
7. **Joint control**³ - the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
8. **Significant influence**⁴ - the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
9. **Parent** – an entity that controls one or more entities.
10. **Subsidiary** - an entity that is controlled by another entity

¹ As defined in International Accounting Standards (IAS) 24.

² As defined in International Financial Reporting Standards (IFRS) 10.

³ As defined in International Financial Reporting Standards (IFRS) 11.

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11. **Joint Venture**³ – a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
12. The term “**fair and at arm’s length**” refers to transactions in an open and unrestricted market and between willing parties who are knowledgeable, informed, and who act independently of and without regard to any relationship with each other.
13. **Key Management Personnel**¹ – persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

III. GENERAL PRINCIPLES

The Company shall, as soon as practicable, adopt implementing rules and regulations in furtherance of this RPT Policy in accordance with the following general principles:

1. The Company shall at all times observe and adhere with the provisions of the Corporation Code, its Articles of Incorporation and By-laws, and all other relevant and laws, rules and regulations, as may be applicable in the review, approval and disclosure of RPTs. The Company shall at all times observe, uphold and respect the rights of its shareholders, minority and majority alike, through this RPT Policy.
2. All RPTs shall be reviewed and approved by appropriate RPT Approving Authority, as may be determined by the Company’s Board of Directors. Material/significant RPTs, which involve an amount or value equal to or greater than PhP 50 Million, shall be reviewed and endorsed by the AuditCom, prior to the approval of the Board. Likewise, RPT thresholds are to be defined and endorsed by the AuditCom, prior to the approval of the Board.

The Board may require that an RPT approved by it be also submitted to the stockholders for consideration and ratification.

3. In their review of RPTs, each RPT Approving Authority shall ensure that RPTs are for the best interest of the Company. Each RPT Approving Authority shall consider all of the relevant facts and circumstances available, including but not limited to the following:
 - a. The benefits to the Company of entering into the transaction;
 - b. The extent of the Related Party’s interest;
 - c. The availability of other sources of comparable products or services;
 - d. The extent to which the terms of the RPTs are less favorable than terms generally available in non-related transactions under like circumstances;
 - e. The aggregate value of the RPT; and
 - f. The impact on a director’s independence if the Related Party is a director, an immediate family member of a director or an entity in which a director is a shareholder or of which a director is a senior executive officer, director, general partner, managing member or a person in a similar position.
4. The Company shall provide a mechanism for the proper and timely disclosure of all RPTs, in accordance with the categories and criteria determined by the Board of Directors

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5. Directors and key management personnel shall disclose their interest in transactions and any other conflicts of interest. The Company requires directors and key management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when they are conflicted.
6. The Company does not grant loans or any special financial assistance to directors.
7. The Company shall ensure that RPTs carried out by its subsidiaries are conducted in accordance with this Policy.

IV. EFFECTIVITY

This Related Party Transactions Policy was approved by the Board of Directors at its meeting held on December 16, 2013. It shall take effect on January 1, 2014.

All existing policies, systems, practices, and related implementing guidelines concerning the same matters covered by this Policy are deemed revoked and superseded by this Policy. In the event of any inconsistency between the Policy and guidelines contained in this document and the terms of other existing systems, practices, and related implementing guidelines, this Policy shall prevail.

(Original Signed)

RET. CHIEF JUSTICE ARTEMIO V. PANGANIBAN
Chairman, Audit and Risk Management Committee

(Original Signed)

MR. MANUEL V. PANGILINAN
Chairman of the Board

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ANNEX A: IAS 24 DEFINITIONS AND EXAMPLES OF RPTs

A related party is:

- a. A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled or jointly controlled by a person defined in (a).
 - vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The following are considered as **RPTs** when performed with a Related Party:

- a. Purchases or sales of goods.
- b. Purchases or sales of property and other assets
- c. Rendering or receiving of services
- d. Lease
- e. Transfers of research and development
- f. Transfers under license agreements
- g. Transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- h. Provisions of advances, donations, guarantees or collateral
- i. Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

Close members of the family of a person include:

- a. that person's children and spouse or domestic partner;
- b. children of that person's spouse or domestic partner; and
- c. dependents of that person or that person's spouse or domestic partner.