

# Corporate Governance

Corporate Governance (CG) is an integral component in the Company's management framework as Meralco pursues its business aspirations for all its stakeholders. Meralco's corporate governance framework is anchored on the principles of fairness, accountability, integrity and transparency. In 2010, the Company made corporate governance a major thrust and institutionalized the "Be Right" communication policy in the Meralco culture.

As a public utility, Meralco is subject to regulation, legislation and public scrutiny. All directors, officers and employees of the Company and its subsidiaries are therefore committed to observe all Company policies and relevant regulations and laws. The Company adheres to these imperatives, both in substance and form, as its commitment to stakeholders: shareholders, customers, government, employees, business partners, suppliers, creditors, contractors and the community.

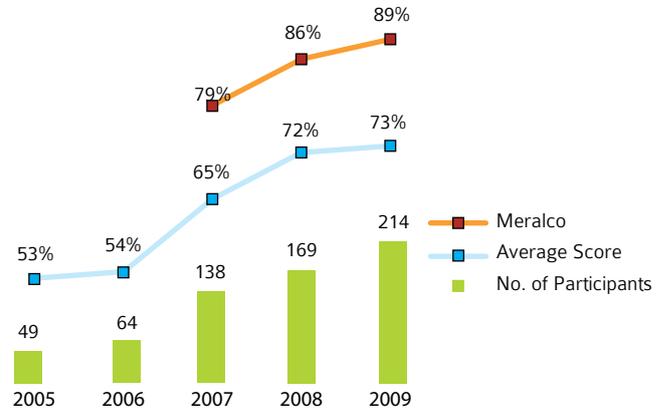
A Corporate Governance Office (CGO) was created on March 16, 2010 to manifest Meralco's dedication to pursue excellence in corporate governance. Its mandate is to support the Board of Directors and Management in the formulation and implementation of CG plans, programs and initiatives, and in monitoring compliance to achieve the highest standards of competence and ethical culture among directors, officers and employees of the Company.

## I. GOVERNANCE COMPLIANCE AND PERFORMANCE

Meralco has consistently complied with the disclosure and reportorial requirements of the Securities and Exchange Commission (SEC). In 2010, these included:

- Certification by the Compliance Officer of the Company's compliance with the Revised Manual of Corporate Governance.
- Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code (SRC), and the reporting of trading transactions of directors and concerned officers of the Company by the Compliance Officer not later than the following day after the required event or transaction. There has never been any case of insider trading involving directors and Management of the Company.
- The certification of Board attendance, reports involving financial statements, disclosure of material information and events, and trainings attended by key officers and Board members on corporate governance.

## Meralco's Performance



Source: The 2009 Corporate Governance Scorecard for Publicly Listed Companies – ICD.

Every year, Meralco participates in the CG Scorecard Assessment conducted by the SEC together with the Philippine Stock Exchange (PSE) and the Institute of Corporate Directors (ICD). The CG Scorecard is administered to determine the level of CG practices of Publicly Listed Companies (PLCs) relative to global and regional standards. Meralco's performance since its initial assessment in 2007 has shown significant improvement, surpassing the average performance of participating companies.

Meralco was awarded the "Best in Investor Relations" in the Philippines in the 1st Asian Excellence Recognition Awards 2011 of Corporate Governance Asia. The award was based on the results of a regional survey conducted between August to December 2010 among investors in Asia. The award is given to companies exhibiting excellent performance in the areas of investor communications, business ethics, corporate social responsibility, environmental practices and financial performance.

The Company sends participants to CG Circle activities, e.g., Good Governance Advocates and Practitioners of the Philippines (GGAPP) meetings, ICD seminars and workshops as part of the corporate governance build-up in Meralco. The Company also cooperates with the regulatory agencies in the development of CG policies for Philippine companies by providing feedback on proposed policies by the PSE and SEC.

## II. OUR POLICIES

Meralco believes that well-defined policies should cascade governance principles to business operations and processes.

These policies were based on best CG practices and adapted to the Meralco business environment:

- a. **Revised Manual of Corporate Governance (MCG)** is the foundation of Meralco's governance policies, which complies with the amended SEC Corporate Governance Code under SEC Memorandum Circular No. 6, series of 2009 dated June 22, 2009. The revised manual was approved on April 12, 2010 and took effect on May 1, 2010.
- b. **Revised "Standards of Business Conduct and Ethics" (Code of Ethics or COE)** prescribes that ethical values and standards of behavior are observed by all directors, officers and employees of the Company as they perform their respective duties and responsibilities. The 2003 version of our COE was revised to include important provisions such as risk management and internal control. A Company-wide orientation was conducted for all employees for a thorough understanding of and personal commitment to the revised COE.
- c. **Conflict of Interest Policy** sets requirements for all directors, officers and employees to observe the highest degree of transparency, selflessness and integrity in the performance of their duties, free from any form of conflict with personal interest. This took effect on August 23, 2004.
- d. **Policy on Disclosure of Relatives** aims to ensure fairness, transparency and objectivity in decision-making and avoidance of situations that may give rise to conflict of interest. This was approved and implemented on February 1, 2010.
- e. **Policy on Blackout Period/Restriction on Trading of Shares** regulates trading of shares by Company executives, officers and employees with direct access to unpublished information relating to the Company's financial and operating results, in the interest of CG and transparency. This policy took effect on July 16, 2010.
- f. **"Be Right" Communication Policy** promotes open lines of communication between Management and employees, enabling Management to relay directions and for employees to express their ideas and concerns to Management. This policy also provides a framework and guidance for good faith reporters on violations of governance principles, policies, codes of conduct, misstatement of financial transactions and accounts, fraud, and other potential whistleblowing type of incidents without exposure to retaliation. The "Be Right" policy was approved on August 10, 2010.

- g. **Policy on Solicitation and Acceptance of Gifts** regulates the acceptance of gifts offered and given by 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. This policy was approved on December 13, 2010.

These policies on corporate governance are available at the Corporate Governance Intranet Portal of Meralco. Copies of the Corporate Governance Handbook, which compiles the above-mentioned policies, were distributed to all offices.

### III. BOARD OF DIRECTORS

The Board of Directors (Board) has the primary responsibility of championing the principles of corporate governance. The Board also oversees the risk management function and the adequacy of internal control mechanisms to ensure the reliability of financial reporting, efficiency and effectiveness in operations, protection of assets and compliance with applicable laws and regulations.

There are 11 members of the Board with complementing expertise and experience necessary to act on various issues and matters affecting the Company. Of these directors, two are executive directors, two are independent and seven are non-executive directors. The Board structure and practices provide clear division of responsibilities at the top of the corporation – between the Board exercising oversight function and Management discharging its executive responsibilities. All the directors also fully comply with Energy Regulatory Commission (ERC) Resolution No. 1, Series of 2004, entitled "Program to Promote Good Corporate Governance in Distribution Utility," which requires attendance in seminars on corporate governance.

#### A. Board independence

The elected independent directors for 2010 are retired Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas. This is in accordance with the SRC requiring at least two independent directors or 20% of the members of the Board, whichever is lesser. They were nominated and elected in compliance with Rule 38 of the Implementing Rules of the SRC, as amended.

To further strengthen the Board's independence, the Company separated the posts of the Chairman of the Board from that of the President and the CEO. Each position has distinct and separate duties and responsibilities in accordance with

the Company's amended By-Laws and Revised Manual of Corporate Governance. The Chairman of the Board is Amb. Manuel M. Lopez, while the President and CEO is Mr. Manuel V. Pangilinan.

### B. Election of directors

In accordance with the provisions of the Company's By-Laws and Manual of Corporate Governance, the Corporation Code of the Philippines and the SRC, nominees to the Board go through a nomination and screening process. The final list of nominees is determined after pre-screening and evaluation of qualifications. The directors are elected by stockholders who are entitled to vote during the Annual General Meeting (AGM). They serve for a period of one year and until their successors are qualified and elected.

### C. Board remuneration

The Company's directors do not receive any compensation other than the Board-approved per diem for their attendance in Board and Board committee meetings. In 2010, each director was entitled to a director's fee of Php120,000 for each Board meeting attended. Each member or advisor of the Audit and Risk Management, Compensation and Benefits, Finance, Nomination and Governance Committees was entitled to a fee of Php20,000 for each committee meeting attended. The fees were last adjusted in April 2010.

### D. Board performance

The Board holds monthly meetings and special Board meetings, if so required, with agenda that include updates by the Chairman and the Board committees; reports on financial performance by the Chief Finance Officer; and operational performance by the President and CEO, the Senior Executive Vice President and COO, among other major Company issues.

The table shows the participation of the Board in the Annual General Meeting, Organizational Meeting and its regular meetings.

Member	Designation	Annual General Meeting	Organizational Meeting	Board Meetings
		May 25, 2010	May 25, 2010	
Manuel M. Lopez	Chairman	Present	Present	10/12
Ramon S. Ang	Vice-Chairman and Director	Present	Present	12/12
Manuel V. Pangilinan	Director	Present	Present	11/12
Ray C. Espinosa	Director	Present	Present	12/12
Artemio V. Panganiban	Director (Independent)	Present	Present	12/12
Vicente L. Panlilio <sup>1</sup>	Director	Present	-	11/12
Estelito P. Mendoza	Director	Present	Present	7/12
Napoleon L. Nazareno	Director	Present	Present	11/12
Eric O. Recto <sup>2</sup>	Director	-	-	6/7
Oscar S. Reyes <sup>3</sup>	Director	-	-	6/6
Pedro E. Roxas <sup>4</sup>	Director (Independent)	-	Present	6/7
Elpi O. Cuna <sup>5</sup>	Past Director	Present	Present	5/5
Jose P. de Jesus <sup>6</sup>	Past Director	Present	Present	6/6
Elenita D. Go <sup>5</sup>	Past Director	Present	Present	5/5

<sup>1</sup> Director until May 25, 2010 AGM and reappointed on June 28, 2010

<sup>2</sup> Appointed, June 28, 2010

<sup>3</sup> Appointed, July 1, 2010

<sup>4</sup> Elected, May 25, 2010

<sup>5</sup> Resigned, June 30, 2010

<sup>6</sup> Resigned, June 28, 2010

On February 28, 2011, the directors conducted its Annual Board Self-Assessment to evaluate their specific and overall performance for 2010. Board members assessed their individual and collective performance on Board structures, processes and responsibilities.

The Board also conducted an evaluation of the 2010 performance of the President and CEO in the January 14, 2011 Board meeting. It was based on the attainment of key corporate goals for 2010, relative to his leadership, management, communication and working relationship with the Board.

#### IV. BOARD COMMITTEES

The Company's Board has five standing committees: the Executive Committee; Nomination and Governance Committee; Audit and Risk Management Committee; Compensation and Benefits Committee; and Finance Committee. All committees have approved charters defining and specifying the scope of their responsibilities.

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

**A. Executive Committee (ExCom)** – composed of five 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 in the By-Laws or on a majority vote of the Board, subject to the limitations provided by the Corporation Code of the Philippines.

**B. Nomination and Governance Committee (Nom & GovCom)** – composed of four directors with an independent director as chairman. It is responsible for 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.

In 2010, the Nom & GovCom accomplished the following: review and selection of the nominees for election as members of the Board; review of rules on nomination of candidates, validation of proxies, and appreciation of ballots; proposal of amendments to the Company's By-Laws; review of revisions to the Manual of Corporate Governance and the Code of Ethics; review of CG policy approval procedures; approval and conduct of the Board self-assessment; and approval of the Policy on Solicitation and Acceptance of Gifts.

**C. Audit and Risk Management Committee (AuditCom)** – composed of five directors with accounting and finance backgrounds, two of whom are independent, and another director who has audit experience. The AuditCom assists the Board in its oversight responsibility in the financial reporting process, system of risk management and internal control, audit process, and monitoring compliance with applicable laws, rules and regulations.

In 2010, the AuditCom accomplished the: review of the Company's 2009 audited financial statements and 2010 quarterly financial statements; review of the financial performance of subsidiaries and affiliates; review and approval of the 2009 Audit and Risk Management Committee Report to the Board; endorsement of the nomination of the external auditor for 2010; review and approval of the 2010 internal audit plan, budget and covenant; review of 2009 internal audit performance, approval of external quality assessment review for the internal audit activity; review and approval of external auditor's 2010 financial statement audit plan and fees; and evaluation of the Company's risk profile and management structure, systems and processes.

**D. Compensation and Benefits Committee (Comp & BenCom)** – composed of three directors, one of whom is an independent director. The Comp & BenCom assists the Board in the development of the Company's overall compensation and retirement policies and programs based on the Board-approved philosophy and budget.

The committee's major accomplishments for 2010 include the review and endorsement to the Board of the Company's total compensation policy, philosophy and design; 2009 incentive program; 2009 performance evaluation, results, proposals for the 2010 performance management system and incentive plans and the Company's balanced scorecard results; 2009 performance evaluation of the Chairman and CEO, and President and COO; nomination and appointments to the pension fund Board of trustees; and review of the Employee Stock Purchase Plan.

**E. Finance Committee (FinCom)** – composed of three directors, one of whom is an independent director, with the Company's Chief Finance Officer as ex-officio member. It reviews the financial operations of the Company and matters regarding acquisition of or investments in companies, businesses or projects.

Among the accomplishments of the FinCom in 2010 are the approval of the 2011 corporate budget; review and approval of the medium-term financial plans; approval of cash dividend declaration for common and preferred shares; review of financial performance of subsidiaries and investment returns; review of quarterly cash projections and finance operations report; redemption on preferred shares; evaluation of debt refinancing; contribution to the pension fund; divestment of shareholdings in affiliate company; review of major purchases and contracts; and approval of bank accreditation and signing authorities.

## F. Board Committee Meeting and Attendance

2010 Board Committee Meeting and Attendance					
Member	Executive	Nomination and Governance	Audit and Risk Management	Compensation and Benefits	Finance
Manuel M. Lopez	1/2	-	-	1/1	5/8
Ramon S. Ang	1/2	-	-	-	-
Manuel V. Pangilinan	2/2	-	-	3/3	-
Ray C. Espinosa	-	4/4	-	-	13/13
Artemio V. Panganiban <sup>1</sup>	1/1	-	2/2	-	-
Vicente L. Panlilio	-	-	7/9	0/1	-
Estelito P. Mendoza	-	4/6	-	-	-
Napoleon L. Nazareno	1/1	5/6	8/9	2/2	-
Eric O. Recto	1/1	-	2/2	2/2	7/7
Pedro E. Roxas <sup>1</sup>	-	6/6	2/2	2/2	7/8
Elpi O. Cuna	1/1	-	-	1/1	5/5
Jose P. de Jesus	-	-	-	-	5/5
Elenita D. Go	-	-	6/6	-	4/4
Aurora T. Calderon <sup>2</sup>	-	-	2/7	-	-
Elpidio L. Ibanez <sup>2</sup>	-	-	6/7	-	-
Ferdinand K. Constantino <sup>2</sup>	-	-	-	-	11/13
Anabelle L. Chua <sup>2</sup>	-	-	2/2	-	10/13

<sup>1</sup> Independent Director

<sup>2</sup> Non-Director Member

## V. MANAGEMENT

Management is primarily accountable to the Board. It is responsible for the Company's successful implementation of the strategy and direction as approved by the Board.

Management is represented by a Management Committee (ManCom) composed of the corporate officers and executives headed by the President and CEO, or in his absence, the Senior Executive Vice President and COO. Weekly meetings are conducted by the ManCom to ensure implementation of major policies and directions governing the Company and its subsidiaries. It reports to the Board during regular Board meetings or during special meetings through the President and CEO and/or the Senior Executive Vice President and COO.

The annual performance of Management is assessed through the achievement of the Company's established Balanced Scorecard indicators.

To ensure continued success in managing Company operations, Management attended a structured executive training and development, including training on compensation and benefit plans and on succession planning. In addition,

similar training programs were provided for senior management and the executive levels.

## VI. ENTERPRISE RISK MANAGEMENT

Since 2005, the Company has been conducting periodic strategy and self assessments to evaluate risks and their likely impact on its business performance.

In 2010, the Company adopted an expanded approach to manage various business risks to cover its subsidiaries and associate companies. Management embarked on a series of briefings and workshops aimed at building competencies, identifying threats, exploiting opportunities and managing risks among its core business units. Using the Meralco Enterprise Risk Management Framework contained in the Meralco Risk Management Policy Manual, an enterprise risk management capability development program for subsidiaries and associate companies was conducted with the assistance of an expert from the Asian Institute of Management.

An executive briefing on Corporate Governance for the Board, the Management, and key officers of subsidiaries and affiliates was conducted on December 15, 2010 by the Asian Risk Management Institute (ARiMI), which discussed the integration

of Corporate Governance and Enterprise Risk Management to foster sustainable effective performance.

## VII. ACCOUNTABILITY AND AUDIT

### A. Independent Public Accountants

SyCip Gorres Velayo & Co. (SGV & Co.) was reappointed as the independent external auditor of the Company, through the approval of the shareholders in the Annual General Meeting. The engagement partner assigned to the Company since 2008 is Mr. Gemilo J. San Pedro, who has extensive accounting and auditing experience. The appointment is in accordance with the SEC regulation that the audit partner principally handling the Company's account is rotated every five years or sooner.

In addition to serving as external auditor, SGV & Co. was engaged to provide non-audit services that included information and communication technology (ICT) security risk assessment in 2010, and for agreed upon procedures for the stockholders' meeting in 2009.

The following consolidated fees (exclusive of VAT) were incurred by the Company and its subsidiaries for SGV & Co.'s services:

#### Consolidated Audit Fees (in million Php)

	2010	2009
Regular audit of the annual financial statements	8.8	11.2
Other audit-related services	-	1.0
Other services	1.5	2.4
<b>TOTAL</b>	<b>10.3</b>	14.6

Other audit-related services in 2009 referred to under external auditors' services are in relation to the Company's filing of the Business Separation and Unbundling Plan Report and the Annual Report required by the ERC.

There has been no disagreement with the independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

### B. Internal Auditor

The Company has an independent internal audit organization, which provides objective assurance and consulting services designed to add value and improve the organization's operations. It helps organizations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management in the Company, control and governance processes.

Internal Audit conducts its activities guided by the Institute of Internal Auditors' (IIA) Professional Practices Framework primarily consisting of the International Standards, the Definition of Internal Auditing and the Code of Ethics, and the Company's Code of Ethics. In the last quarter of 2010, Internal Audit subjected its activities to an External Quality Assessment Review (EQAR) as part of its quality assurance and improvement program and as prescribed by the Standards. Punongbayan and Araullo (P&A) performed the EQAR and declared that the Corporate Audits of Meralco "generally conforms" to the IIA Standards. This further validates that these internal audit activities were in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPA).

The head of Corporate Audits reports functionally to the Audit and Risk Management Committee and administratively to the President and CEO.

### C. Internal Control

The primary responsibility for the design, implementation and maintenance of internal control rests on Management; while the Board and its Audit and Risk Management Committee oversee the actions of Management and monitor the effectiveness of the controls put in place. The independent mechanisms to monitor and evaluate the existence and effectiveness of internal controls are provided by the external auditor and the internal auditor. The external auditor provides an independent and objective assurance on the preparation and presentation of the Company's financial statements, while the internal auditor functions as an independent audit that provides reasonable assurance on the achievement of the Company's internal control objectives, specifically on the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations.

## VII. FINANCIAL REPORTING

The Company's consolidated financial statements were prepared in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards, including interpretations issued by the Philippine Financial Reporting Standards Council. The audited financial statements are reviewed by the Audit and Risk Management Committee to ensure that they present fairly, in all material aspects, the financial position of the Company and are recommended for approval by the Board. In 2010, the review of the Company's consolidated financial statements was conducted by the external auditor. The

results of the review were discussed by the Audit and Risk Management Committee and presented to the Board, after which, the financial statements were filed with the SEC and released to the public.

## IX. DISCLOSURES ON OWNERSHIP STRUCTURE

The Company ensures that it consistently complies with the required disclosure on shareholdings of its securities. It discloses the top 20 shareholders of its common shares annually. It also provides an annual disclosure of security ownership at certain record and beneficial owners who hold more than 5% of its equity shares. In compliance with the SEC requirements, a quarterly report of the Company's top 100 shareholders is disclosed in its website.

Based on Meralco's stock and transfer book, the security ownership as at December 31, 2010 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Name	No. of Shares	Percentage
Beacon Electric Asset Holdings, Inc.	392,502,961	34.8%
Government Service Insurance System	332,172,311	29.5%
PCD Nominee Corporation (Filipino)	74,974,453	6.7%
PLDT Communications and Energy Ventures, Inc.	68,800,000	6.1%
Social Security System	62,990,689	5.6%

Details are found in the "List of Top 100 Stockholders as at December 31, 2010" as disclosed to PSE on January 17, 2011.

The Company's public ownership level as at December 31, 2010 as posted in the PSE website is at 22%. As of the said date, the outstanding shares of the Employee Stock Options Purchase Plan represents 1.29% of the total capital stock of the Company.

## X. SHAREHOLDER RELATIONS

The Company upholds the rights of its shareholders, as well as the general investing public, to obtain relevant information about the Company in a timely and regular basis.

The Company's financial performance and prospects are regularly reported to the SEC and PSE. These reports are immediately made public upon submission to the SEC through

press releases and postings in the Company's website. These include disclosures on related party transactions in compliance with Company policy. No disputes in connection with such related party transactions were reported in the past two years.

Investors' briefings are held quarterly, where equity and credit analysts of both local and foreign-based institutions are invited. Analysts unable to attend in person participate through a teleconference facility with playback feature available up to three days after the event.

Members of Senior Management make themselves available for meetings with institutional investors through Company visits, teleconferences, briefings and attendance in local and international investor conferences.

Press/media briefings are likewise held regularly to report on Meralco's operating and financial results to the various representatives of media, particularly from the broadsheets and wire agencies. The briefings become venues for Management to answer questions and clarify issues prior to the release of information to the public.

Shareholders and investors are provided with adequate facility to communicate with the Company such as telephone, mail, electronic mail, and its website, [www.meralco.com.ph](http://www.meralco.com.ph). The Investor Relations Office supervises the investors' briefings and attends to institutional investors' needs; while the Stockholder Affairs Office attends to the inquiries and other concerns of shareholders, including the distribution of Notice and Agenda of the AGM at least 30 days before the said meeting. For the 2010 AGM, notices were sent on March 30, 2010, 56 days before the AGM on May 25, 2010.

The AGM serves as a venue for the shareholders to clarify Company issues in the presence of the Board, the Chairman, the CEO, Management and external auditors. Shareholders are encouraged to personally attend the AGM and if unable to do so, are advised of their right to appoint a proxy on their behalf. Notarization of a proxy is not required but has to comply with the requirements of law, in particular, the Corporation Code and SRC, pertinent rules and regulations, By-Laws, and rules and policies adopted by the Board.

The voting procedure in the AGM is as follows: (a) the matters in the agenda require the affirmative vote of qualified stockholders. Each common stockholder shall be entitled to

one vote for each share; (b) in the election of directors, each qualified stockholder may accumulate and distribute his votes in accordance with the Corporation Code of the Philippines; (c) voting and counting of votes shall be by balloting, show of hands or viva voce. Auditors and inspectors appointed by the Board will be present to canvass and inspect ballots.

During the May 25, 2010 AGM, the shareholders ratified the dividend policy approved by the Board, which called for payment of regular dividends equivalent to 50% of core earnings, which may be supplemented by a special dividend determined on a 'look-back' basis. Any declaration and payment of a special dividend is dependent on the availability of unrestricted retained earnings and cash. Details of the cash dividend pay-outs are contained in the Notes to Consolidated Financial Statements.

#### **XI. EMPLOYEE RELATIONS**

The Company is committed to the development and welfare of its employees. All personnel and staff are properly informed, trained and empowered to perform well, in the spirit of malasakit and teamwork/collegiality. They are engaged and compensated based on qualifications, merit and performance. Their professional growth and career advancement are ensured through the development and implementation of competency-based training, skills enrichment opportunities, and performance evaluation and job promotion plans and programs. Adequate provisions for medical and health support, essential benefits, rewards and recognition, and workplace safety are constantly provided for their protection, well-being and motivation. Uprightness and impartiality are observed in the resolution of conflicts. Management promotes openness and encourages employees to give suggestions and comments on corporate, administrative and operational improvements.

#### **XII. OBLIGATIONS TO OTHER STAKEHOLDERS**

Meralco seriously considers the impact of business decisions on the interests of its shareholders and other stakeholders. The Declaration of Corporate Principle of the Company's Revised Manual of Corporate Governance specifically mentions: "The Company...uphold(s) an ethical culture that will protect and promote the best interest of the Company for the common benefit of the Company's stockholders and other stakeholders."

The Company also protects and maintains good relations with its suppliers and creditors based on mutual respect and benefit. The Company strives to foster long-term stability,

direct and open relation, and continuous development with suppliers to attain quality, competitiveness, process efficiency and performance reliability; foster governance principles in all of its business dealings with them; and seek, encourage and prefer suppliers whose business practices respect human dignity and the environment.

#### **XIII. GOVERNANCE OF SUBSIDIARIES**

The contribution of Meralco's subsidiaries has always been significant in boosting shareholder value. The Subsidiary Management Policy continues to be the standard set of rules for creating and managing subsidiaries based on the criteria and principles embodied in the Company's Manual of Corporate Governance, Code of Ethics, and existing laws, rules and regulations. In 2010, the Company introduced policy changes to strengthen good governance practice of subsidiaries. Specifically, a transparent process for the nomination and selection of Board members in subsidiaries was defined, ensuring that the criteria for Board directorship are followed including qualifications, composition and conflict of interest situations. The Company also encourages its subsidiaries to adopt their own Manual of Corporate Governance and Code of Ethics.

#### **XIV. OUTLOOK FOR 2011 ONWARDS**

Meralco aims for excellence that goes beyond compliance. The Company commits to strengthening its culture of good governance and responsible management practices, while benchmarking with the international community and global companies. Meralco believes that the reward of good governance is not just recognition but the continuous improvement on Company operations, breakthrough performance and sustainable growth that will serve the best interest of all our stakeholders.