



Corporate Governance

The Company is now on its 107th year of being the largest electric distribution utility in the Philippines. Its past centenary years marked with consistent operational service excellence and sustained growth and profitability are inimitable testaments of how good corporate management and governance have resided in this Company. The Company takes a strong stand on fulfilling its public service mandate and regulatory accountabilities while continuing to create business value enrichments for all our stakeholders, especially the shareholders.

The Company's philosophy of "Service Excellence with Integrity" conveys its unwavering commitment to high standards of corporate governance principles and practices. Accountability, transparency and integrity are paramount considerations in the development and realization of the Company's strategies, plans and objectives. These, too, are in our evolving culture and tradition creating a mindset that cultivates esteemed values foremost of which is "malasakit."

On top of the Company's mechanism for corporate governance are the pertinent provisions in its Articles of Incorporation and By-Laws, embodying the fundamental structure of the Company, as well as the composition, qualifications, duties and responsibilities of its directors and officers. The adoption of a Manual of Corporate Governance approved by the Board of Directors ("the Board") in August 2002 reinforces the Company's vision towards long-term business opulence and ever-growing shareholder value. This Manual conforms with the requirements of the Code of Corporate Governance mandated by the Philippines' Securities and Exchange Commission (SEC). From its original version, it has undergone subsequent revisions to reflect improvements in the Company's governance structures, practices and programs, as well as include amendments in the SEC Governance Code for mandatory compliance by publicly-listed companies.

The succeeding sections briefly describe the key components in the Company's good corporate governance infrastructure.

Lately, the Company's Manual of Corporate Governance was revised pursuant to SEC Memorandum Circular No. 6, Series of 2009 (Revised Code of Corporate Governance), and in

accordance with the leading standards and best practices of good corporate governance. The Revised Manual was submitted to the SEC on April 14, 2010 and will take effect on May 1, 2010.

BOARD OF DIRECTORS

Key Responsibilities

The primary responsibility of compliance with corporate governance principles is lodged with the Board. The Board controls the affairs of the Company with utmost responsibility and effectiveness, to ensure long-term success and sustained value enhancements for the Company's stakeholders. It establishes the Company's purpose, vision and mission, and strategies to carry out its objectives. The directors are cognizant of their collective and individual responsibilities. Each director acts in good faith, with due diligence and care, and in the best interest of the Company and shareholders.

The Board also oversees the risk management function and the adequacy of internal control mechanisms in the Company to ensure the reliability of financial reporting, efficiency and effectiveness in operations, protection of assets, and compliance with applicable laws and regulations.

There are certain types of decisions which are reserved for approval at the Board level, including those relating to strategic directions, monitoring of Management's performance, operating and capital budgets, acquisitions and disposal of assets, major investments, contracts, and financing transactions.

Board Composition

The Board is composed of eleven (11) directors. As of the end of December 2009, three (3) are executive directors, two (2) are independent directors, and six (6) are non-executive directors. The Chairman of the Board and Chief Executive Officer is Manuel M. Lopez; while the President and Chief Operating Officer is Jose P. de Jesus. The existing Board structure and practices provide a clear division of responsibilities at the top of the corporation - between the Board exercising oversight function and the Management discharging its executive responsibilities for the business.

The Board represents a mix of expertise, professional competencies and experience necessary to thoroughly examine and deliberate on the various issues and matters affecting the Company. Each director provides value and contributing his own independent judgment to the formulation of sound corporate strategies and policies. The directors have substantially complied with 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.

The names and profiles of each director are found in the Board of Directors section of this Annual Report and in the Definitive Information Statement.

Election of Directors

In accordance with the provisions of the Company’s By-Laws and Manual of Corporate Governance, the Corporation Code and the Securities Regulation Code (SRC), the nominees to the Board undergo a nomination and screening process through the Board’s Nomination and Governance Committee. The directors are elected by stockholders entitled to vote during the Annual Stockholders Meeting. They hold office for one year and until their successors are elected and qualified.

Throughout 2009, the Company has complied with the requirement of the SRC on the number of independent directors - which is at least two (2) directors, or at least twenty percent (20%) of the members of the Board, whichever is the lesser. The independent directors in the Board provide the necessary balance among shareholders and ensure that the interests of minority shareholders are protected. The Company has adopted Rule 38 of the Implementing Rules of the SRC, as amended, on the requirements for the nomination and election of independent directors. The qualifications prescribed by the SRC include:

- (i) independent of Management;
- (ii) does not provide any other service, or receive compensation, income or privileges and benefits other than pertaining to a director;
- (iii) has sufficient knowledge of the Company’s business activities and current performance to make informed decisions; and
- (iv) can provide independent judgment and outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the Board.

Directors’ Fees

The Board approved a reasonable per diem for directors’ attendance in Board and Board Committee meetings. The per diem is intended to provide directors a reasonable allowance for attendance in meetings. The level of per diem was the result of a benchmark study among publicly-listed companies comparable with Meralco.

“The Company takes a strong stand on fulfilling its public service mandate and regulatory accountabilities while continuing to create business value enrichments for all our stakeholders, especially the shareholders.”

Board Performance

The Board holds regular monthly meetings and special board meetings to deliberate on major issues affecting the Company. Ordinarily, the Board adopts a formal and sequential agenda for each regular meeting. The agenda include brief reports or updates by the Chairman and the Board Committees, reports on financial performance by the Chief Finance Officer, and operational performance by the President and Chief Operating Officer. The agenda also include items for the Board's deliberation and approval.

In 2009, the Board held twelve (12) regular meetings and one (1) special meeting. The details of attendance of each director in these meetings and in the annual stockholders' meeting and organizational meeting, including changes in membership in the Board are recorded below. The average attendance rate in 2009 was 92% and average duration of meetings was 1.80 hours.

The Corporate Secretary, or in his absence, the Assistant Corporate Secretary provides assistance and advisory services to the directors on their responsibilities and obligations. The Corporate Secretary supplies the directors with detailed reports and materials pertinent to the agenda in Board and Committee meetings, at least a day prior to the scheduled meeting. He also assists any director who may need to communicate with the Management to clarify certain matters submitted for the Board's consideration.

BOARD COMMITTEES

The Company's Board has five (5) standing committees. All committees have approved Charters which define and specify the scope of their responsibilities.

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

Executive Committee

The Executive Committee is composed of five (5) directors, one of whom is an independent director. This committee 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.

In 2009, the Executive Committee met two (2) times. The members' performance attendance of this committee is as follows:

NUMBER OF MEETINGS ATTENDED		
	PRESENT	ABSENT
CHAIRMAN		
Manuel V. Pangilinan	1	-
MEMBERS		
Ramon S. Ang	-	1
Manuel M. Lopez	2	-
Artemio V. Panganiban*	2	-
Vicente L. Panlilio*	2	-
PAST DIRECTORS		
Cesar E.A. Virata	1	-
Felipe B. Alfonso	1	-
* Independent Directors		

Nomination and Governance Committee

The Nomination and Governance Committee is composed of at least three (3) directors, one of whom must be independent. This committee 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, including training for individual directors.

In 2009, the Nomination and Governance Committee held eight (8) meetings. Among the activities undertaken by the committee are 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; review of board committee charters and reorganization of board committees; propose amendment to the Company's By-Laws; and review of revisions to the Manual of Corporate Governance.

The members' performance attendance of this committee is as follows:

NUMBER OF MEETINGS ATTENDED		
	PRESENT	ABSENT
CHAIRMAN		
Artemio V. Panganiban*	7	-
MEMBERS		
Estelito P. Mendoza	6	1
Napoleon L. Nazareno	3	2
NON-DIRECTOR		
Elpidio L. Ibañez	3	2
PAST MEMBER		
Vicente L. Panlilio*	1	-
PAST DIRECTORS		
Christian S. Monsod	3	-
Felipe B. Alfonso	1	-
* Independent Directors		

Audit and Risk Management Committee

The Audit and Risk Management Committee is composed of at five (5) directors who possess accounting and financial backgrounds, two (2) of whom shall be an independent directors, and another with understanding of auditing concepts and basic auditing processes, or related audit experience or professional accreditation as an auditor. The Chairman is an independent director. This committee assists the Board in fulfilling its oversight responsibilities over the Company's internal and external auditors, the integrity and accuracy of financial statements and financial reporting process, as well as compliance with legal and regulatory matters. It also exercises oversight function on ensuring the effectiveness of the risk management systems in the Company.

The committee held seven (7) meetings in 2009. Among the matters taken-up by the committee are the following: review of the Company's 2008 audited financial statements and 2009 quarterly financial statements; financial performance of subsidiaries and affiliates; actuarial valuation of the Company's pension fund; review and approval of the 2008 Audit Committee report; nomination of the external auditor for 2009; review and approval of the 2009 internal audit plan, budget, and covenants; review of 2008 internal audit performance and report; review of external auditor's 2009 financial statement audit plan and audit fees; evaluation of the Company's risk profile and management structure, systems and processes, and approval of the risk management policy manual; review of the 2008 audited financial statements of the pension fund; and revisions to this committee's charter.

The detailed Audit and Risk Management Committee Report may be found on page 50 of this Annual Report.

The members' performance attendance of this committee is as follows:

NUMBER OF MEETINGS ATTENDED		
	PRESENT	ABSENT
CHAIRMAN		
Vicente L. Panlilio*	7	-
MEMBERS		
Napoleon L. Nazareno	4	-
Alan T. Ortiz	4	-
NON-DIRECTORS		
Aurora T. Calderon	5	2
Elpidio L. Ibañez	4	-
PAST MEMBERS		
Jose P. de Jesus	3	-
Estelito P. Mendoza	-	3
Artemio V. Panganiban*	3	-
* Independent Directors		

Compensation and Benefits Committee

The Compensation and Benefits Committee is composed of at least three (3) directors, one of whom shall be an independent director. It is responsible for formulating and developing the overall corporate philosophy and policy on total compensation package of the Board of Directors and officers of the Company. When used in reference to the functions of this committee, "compensation package" covers all types of remuneration including retirement benefits.

The Committee held six (6) meetings in 2009. Discussions and deliberations pertained to the Company's total compensation policy, philosophy and design, 2008 incentive program, 2008 performance evaluation results, and proposals for the 2009 performance management system and plans; performance evaluation of the Chairman and CEO; the Company's balanced scorecard results; promotion policy for officers; nomination and appointments to the pension fund board of trustees; actuarial studies on the pension fund and retirement plan; retirement policy and retirement pay options; granting of committee meeting fees for non-directors; and revision to this committee's charter and change in committee name.

The members' performance attendance of this committee is as follows:

NUMBER OF MEETINGS ATTENDED		
	PRESENT	ABSENT
CHAIRMAN		
Napoleon L. Nazareno	3	-
MEMBERS		
Manuel M. Lopez	3	-
Alan T. Ortiz	3	-
Vicente L. Panlilio*	3	-
PAST DIRECTORS		
Cesar E.A. Virata	3	-
Aurora T. Calderon	3	-
Christian S. Monsod	2	1
* Independent Director		

Finance Committee

The Finance Committee is composed of at least three (3) directors, with the Company's Chief Finance Officer as ex-officio member. Its primary responsibility is to review the financial operations of the Company and other matters pertaining to the acquisition, investments in companies, businesses or projects. It also advises and recommends approval or action on financial matters like establishment of changes in major financial and treasury policies, financing transactions, corporate plans and budgets; major contracts, acquisitions and divestitures, financing guarantees and indemnities, and mortgage of company assets.

This committee held twelve (12) meetings. Among the matters acted upon by the committee were: the approval of the 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; review of disbursement approval process; 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.

The members' performance attendance of this committee is as follows:

NUMBER OF MEETINGS ATTENDED		
	PRESENT	ABSENT
CHAIRMAN		
Ray C. Espinosa	6	-
MEMBERS		
Jose P. de Jesus	6	-
Alan T. Ortiz	4	1
NON-DIRECTORS		
Anabelle L. Chua	4	2
Ferdinand K. Constantino	10	1
PAST MEMBERS		
Ramon S. Ang	-	5
Estelito P. Mendoza	-	5
Artemio V. Panganiban*	5	-
PAST DIRECTORS		
Cesar E.A. Virata	6	-
Daisy P. Arce	-	1
Jesus P. Francisco	5	-
Christian S. Monsod	1	-
* Independent Director		

MANAGEMENT

Management's primary accountability is to the Board. It is in charge of 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 formed and headed by the Chief Executive Officer, or in his absence, the President. ManCom meets regularly, at least once a week, to ensure the formulation and 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 Chief Executive Officer and/or the President. Management also formed various committees to focus on critical functions or processes, like power supply management, procurement and human resources.

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

The annual compensation of the Company's top officers composed of the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and the heads of the ten (10) major groups of the Company is disclosed in the Definitive Information Statement distributed to the shareholders. This annual compensation includes basic salary, guaranteed

bonuses, fixed allowances, and performance-based pay dependent on the attainment of corporate goals and targets. In order to ensure continued success in managing the Company's operations, structured executive training and development, compensation and benefit plans and succession planning, programs for senior management and the executive levels were put in place.

Management, all employees and the Board of Directors are all subject to the Code of Ethics. This Code of Ethics embodies twelve (12) rules and norms manifesting the company's full commitment and dedication to uphold the fundamental principles of fairness, honesty and integrity. Ethical practices and prudent management of the Company's affairs by Management and the Board are further reinforced through the adoption of a Code on Employee Discipline, Conflict of Interest Policy, Full Business Interest Disclosure, Strategic Guidelines for Major Capital Investment, and Subsidiary Management Policy.

CORPORATE THRUST FOR 2010

As reaffirmation of its continued commitment to good corporate governance, the Company has taken a step further by making it a corporate thrust for the year 2010 – an integral component of sound strategic business management aimed at enhancing its value of the Company to all stakeholders.

The Company has defined its Corporate Governance framework, which is illustrative of the holistic approach by which a culture of sound moral and ethical values is embedded and observed in all its business processes, systems, and procedures. The fundamental principles of Integrity, Fairness, Accountability, and Transparency have been the Company's overall platform for the development and actual implementation of corporate governance programs and initiatives. As an implementation strategy, the Company has defined the 3 I's of Infrastructure, Information, and Implementation as enablers of corporate governance for the Company:

- Infrastructure - all the policies, systems, and structure for setting up corporate governance initiatives in the organization
- Information - education and communication through which corporate Governance awareness and appreciation/ understanding may be cascaded at all levels in the organization
- Implementation - actual institutionalization and enforcement of the prescribed modes of organizational behavior manifesting good corporate governance

Further, a Corporate Governance Office was created to effectively manage and facilitate corporate governance initiatives. The new office highlights the importance and focus being given to good corporate governance.

ENTERPRISE WIDE RISK MANAGEMENT

As the Company fortifies its business, it likewise identifies, monitors and manages material risks associated with its business activities, such as regulatory risks. Risk management in the company is institutionalized with the creation of the Risk Management Committee at the Board level, the appointment of a Chief Risk Officer and the creation of an Enterprise Wide Risk Management Office in 2005 which functions as the arm in the development and implementation of a risk management framework and related tools. Since then, business risks at the corporate level are regularly identified, strategies are developed and implemented, and performance is monitored.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Management Committee performs an oversight role over the performance of the independent and internal auditors. The Chairman of this committee is an independent director, in compliance with the pertinent provisions of the SEC Revised Code of Corporate Governance and the Company's Manual of Corporate Governance.

Independent Public Accountants

SyCip, Gorres, Velayo & Company (SGV&Co.) was reappointed as the principal accountant and independent auditor of the Company, through the approval of the shareholders in the annual stockholders' meeting. The engagement partner assigned to the Company since 2008 is Mr. Gemilo J. San Pedro who has extensive accounting and auditing experience. This appointment is in accordance with the SEC regulation that the audit partner principally handling the Company's account is rotated every five (5) years or sooner.

SGV&Co. has not been engaged by the Company to perform non-audit services.

The following fees (in Php million; exclusive of VAT) were incurred by the Company for SGV&Co.'s services.

Audit Fees	8.3
Audit-related Fees	3.4
TOTAL	11.7

Audit-related fees for 2009 pertain to SGV&Co.'s services to the Company's filing of the Business Separation and Unbundling Plan with the Energy Regulatory Commission, audit of the Meralco Pension Fund, and other services required by Management.

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

Internal Auditor

The Company has an independent internal audit function which provides independent advisory and consulting services to help evaluate and improve effectiveness and compliance with the Company's organizational and procedural controls are effective, appropriate and complied with.

Internal Audit conducts its activities guided by The Institute of Internal Auditors' Professional Practices Framework primarily consisting of the International Standards for the Professional Practice of Internal Auditing (ISPPA) and the Code of Ethics, and the Company's Code of Ethics.

The Head of Corporate Audits as the Chief Audit Executive (CAE) reports functionally to the Audit Committee and administratively to the Chairman and Chief Executive Officer.

Internal Control

The primary responsibility for the design, implementation and maintenance of internal controls 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.

FINANCIAL REPORTING

The Company's consolidated financial statements were prepared in accordance with the Philippine Financial Reporting Standards, which are aligned with the International Financial Reporting Standards. The year-end audited financial statements are reviewed by the Audit and Risk Management Committee to ensure that they fairly present, in all material respects, the financial position of the Company. In 2009, the review of the Company's financial statements was conducted by the independent 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.

DEALINGS IN SECURITIES

The Company has established an internal reporting system intended to guide the directors and principal officers when they trade the Company's securities. This is to control the handling and dissemination of price sensitive information and to comply with the disclosure requirements on direct and indirect ownership of the securities of the Company. The concerned directors and principal officers are required to report their trading transactions to the Compliance Officer not later than the following day after the required event or transaction.

In 2009, there has been no case of insider trading, involving directors and Management of the Company.

DISCLOSURES ON OWNERSHIP STRUCTURE

The Company ensures that it consistently complies with the required disclosure on shareholdings of its securities. It annually discloses the top 20 shareholders of its common shares. It also provides an annual disclosure of security ownership of 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 stockholders is disclosed in its website.

SHAREHOLDER RELATIONS

The Company recognizes 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 contained in the regular or mandatory reports submitted to the SEC and PSE. These reports are immediately made available to the public upon confirmation by the SEC of the disclosure receipt, through public release and/or posting in the Company's website.

The Company conducts regular quarterly Investors' Briefings. Representatives of the local and foreign institutional investors, securities, brokerage firms and investment bankers are invited to these briefings. Through conference call, analysts of foreign-based institutional investors and investment banks are afforded the opportunity to participate in such sessions.

Shareholders and investors are provided with adequate means and facility to communicate with and inquire from the Company. The Investor Relations Office supervises the investors' briefings and attends to institutional investors needs; while the Stockholder Affairs attends to the other concerns of the shareholders. Inquiries are entertained by telephone, mail or electronic mail. The Company website (www.meralco.com.ph) also serves as a communication tool and a reference for pertinent information about the Company.

The Annual Stockholders' Meeting likewise provides an opportunity for shareholders to raise questions and clarify issues relevant to the Company. The Board, the Chairman and CEO, Management and the external auditors are present to respond to questions brought up in the meeting.

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 do their job well in the spirit of malasakit and teamwork. They are engaged and compensated based on qualification, 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, and workplace safety are constantly provided and available for their protection and wellbeing. Uprightness and impartiality are observed and applied in the resolution of conflicts and disagreements. Management promotes openness and encourages employees to give suggestions and comments on corporate, administrative and operational improvements.

COMPLIANCE AND MONITORING

The Board has appointed a Compliance Officer for corporate governance. On a periodic basis, the Compliance Officer discusses with the Nomination and Governance Committee and the Chairman of the Board the status of the Company's compliance with the Manual of Corporate Governance and identifies areas for improvement. The Compliance Officer also seeks from the Nomination and Governance Committee direction and guidance to further elevate the Company's corporate governance practices to higher standards.

The Company considers regulatory compliance as one of the high-priority areas. A Regulatory Management organizational unit is in place to further strengthen and drive more focus in the overall orchestration and management of regulatory management initiatives. Specifically, this unit is responsible for the outcome of major regulatory management processes on regulatory agenda development, policy research, policy advocacy management, rate case management and compliance management. A Regulatory Compliance Officer is also appointed to execute plans and programs related to such regulatory matters.

OBLIGATIONS TO OTHER STAKEHOLDERS

The Company gives due regard on the impact of business decision on its shareholders and other key stakeholders. An explicit statement of such regard is contained in the Declaration of Corporate Principle of the Company's Revised Manual of Corporate Governance, thus: "The Company adheres to the principles of integrity, accountability, fairness, and transparency to develop and uphold 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 a cooperative relationship with its creditors who grant unwavering trust and confidence in the provision of financial facility, thus intensifying the company's leverage.

CORPORATE GOVERNANCE APPLICABILITY TO SUBSIDIARIES

The Company recognizes the equally important contribution of its subsidiaries in boosting the shareholders value and pecuniary yield. To serve as a buttress of corporate governance application in its subsidiaries, a Subsidiary Management Policy has been developed and implemented. This policy institutionalizes a 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. For 2010, the Company introduced policy changes to strengthen the Company's resolve to improve good governance of subsidiaries. Specifically, a transparent process for the nomination and selection of board members in subsidiaries was defined, which would ensure that the criteria for board directorship is followed including qualifications, composition and conflict of interest situations.