



Corporate Governance

MANUAL OF CORPORATE GOVERNANCE

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SENSITIVITY CLASSIFICATION: [Confidential]

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1. Policy Statement

The Board of Directors, Officers, and Employees of Manila Electric Company (“MERALCO” or the “Company”) hereby commit themselves to the fundamental principles of corporate governance embodied in this Manual of Corporate Governance (“Manual”), and acknowledge that the same are necessary components of sound strategic business management that enhance the value of the Company to all its stakeholders.

2. Declaration of Corporate Governance Principles

The Company adheres to the principles of fairness, accountability, integrity, transparency and honesty and fosters an ethical culture where the best interest of the Company are protected for the common benefit of its stockholders and other stakeholders.

The Company likewise adheres to the laws enfranchising its corporate existence and utility operations.

3. Definition of Terms

3.1 Affiliate – an entity linked directly or indirectly to the reporting entity through any one or combination of the following:

- 3.1.1** Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Company, or vice-versa;
- 3.1.2** Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
- 3.1.3** Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and the entity; or
- 3.1.4** Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the entity, or vice versa.

3.2 Board of Directors – Unless otherwise provided in this Manual, the term shall refer to the Board of Directors of MERALCO.

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- 3.3 Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behaviour-reconciling long term customer satisfaction with shareholder value-to the benefit of all stakeholders and society. Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation;

- 3.4 Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties. Unless otherwise provided in this Manual, the term shall refer to the Board of Directors of MERALCO;

- 3.5 Company** – unless otherwise provided in this Manual, shall refer to MERALCO;

- 3.6 Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity;

- 3.7 Enterprise Risk Management** – a process, effected by an entity's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives;

- 3.8 Exchange** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities;

- 3.9 Executive director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

- 3.10 Independent director** – a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;

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- 3.11 Internal audit** – an independent and objective assurance activity designed to add value to and improve the corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;
- 3.12 Internal audit department** – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation’s operations;
- 3.13 Internal Auditor or Chief Audit Executive** – the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results;
- 3.14 Internal control** – a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization’s policies and procedures;
- 3.15 Internal control system** – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed;
- 3.16 Management** – the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- 3.17 Non-audit work** – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;

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- 3.18 **Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation.
- 3.19 **Related Party**- shall cover the Company’s Subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Company exerts direct or indirect control over or that exerts direct or indirect control over the Company; the Company’s directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the Company.
- 3.20 **Related Party Transactions**-a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- 3.21 **Stakeholders**-any individual, organization or society at large who can either affect and/or be affected by the Company’s strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.
- 3.22 **Subsidiary** – an entity that is controlled by another entity. Unless otherwise provided in this Manual, the term shall refer to the subsidiaries of MERALCO.

4. Corporate Governance Rules and Principles

4.1 BOARD’S GOVERNANCE RESPONSIBILITIES

4.1.1 BOARD OF DIRECTORS

4.1.1.1 Establishing Competent Board

- 4.1.1.1.1 The Board of Directors shall be composed of directors with collective working knowledge, experience or

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expertise that is relevant to the Company's industry/sector.

4.1.1.1.2 The Board shall consist of eleven (11) directors or such number as may be required in the Articles of Incorporation and By-Laws of the Company who shall be elected by the stockholders at any regular or special meeting called for that purpose.

4.1.1.1.3 The Board shall be composed of a majority of non-executive directors and at least two or an optimal number of independent directors in the Board to ensure proper checks and balances including prevention of conflicts of interest, the exercise of independent judgment on corporate affairs, proper oversight of managerial performance and balancing of competing demands of the corporation.

4.1.1.2 Qualifications of Directors

4.1.1.2.1 Every director shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. He must have all the qualifications and none of the disqualifications of a director. The following are the qualifications:

- i. Possesses the skills needed to effectively carry out his functions as director;
- ii. Possesses integrity/probity;
- iii. Has strong adherence to legal and moral principles and
- iv. Have a practical understanding of business in general and of the business of the Company, in particular.

4.1.1.2.2 The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

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4.1.1.3 Disqualification of a Director

4.1.1.3.1 Permanent Disqualification

- i. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:
 - an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
 - any crime that (1) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (2) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (3) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, or as an affiliated person of any of them; or
 - having wilfully violated, or wilfully aided, abetted, counselled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation, or order of the SEC or BSP;
- ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or

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administrative body of competent jurisdiction from:

- acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
- acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company;
- engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (1) and (2) above.

The disqualification shall also apply if such person: (1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; or (2) has otherwise been restrained to engage in any activity involving securities and banking or (3) is currently the subject or an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization.

- iii. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations

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or misconduct enumerated in paragraphs (a) and (b) above;

- iv. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; and
- v. Any person judicially declared as insolvent.

4.1.1.3.2 Temporary Disqualification

- i. The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the following grounds:
 - Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists.
 - Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.
 - Dismissal or termination for a cause as director of any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
 - If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

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- ii. Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.
- iii. A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.
- iv. If an independent director becomes an officer or employee of the Company, his designation as independent director is automatically terminated and he shall be disqualified as an independent director.
- v. The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

4.1.1.4 Duties and Responsibilities of a Director

4.1.1.4.1 A director shall have the following duties and responsibilities:

- i. To conduct fair business transactions with the Company and ensure that his personal interest does not conflict with the interest of the Company;
- ii. To devote time and attention necessary to properly discharge and effectively perform his duties and responsibilities;
- iii. To act judiciously;
- iv. To exercise independent judgment;

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- v. To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its Articles of Incorporation and By-Laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies;
- vi. To observe confidentiality of information; and
- vii. To ensure the continuing soundness, effectiveness and adequacy of the Company's control environment.

4.1.1.4.2 The non-executive directors of the Board should concurrently serve as directors to an optimum number of publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Company. In this regard, a Director should notify the Board before accepting a directorship in another company.

4.1.1.5 **Orientation and Annual Corporate Governance Training of Directors**

- 4.1.1.5.1 The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.
- 4.1.1.5.2 First time directors shall undergo an orientation program covering Securities and Exchange Commission- (SEC-) mandated topics on corporate governance and an introduction to the Company's business, Articles of Incorporation, and Code of Conduct. It should be able to meet the specific needs of the Company and the individual directors and aid any new director in effectively performing his or her functions.
- 4.1.1.5.3 All directors shall undergo relevant and continuing training for a duration equal to or longer than what is required by law and regulations. The annual continuing

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training program makes certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the Company.

4.1.1.6 Board Diversity

The Board shall have a policy on board diversity to avoid groupthink and ensure that optimal decision making is achieved. Said policy should endeavour to achieve a board composition that is diverse in gender, skills, competence, knowledge, experience and expertise.

4.1.2 CORPORATE SECRETARY AND ASSISTANT CORPORATE SECRETARY

4.1.2.1 The Board shall be assisted in its duties by a Corporate Secretary, who should be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend a training on corporate governance.

4.1.2.2 The Corporate Secretary and the Assistant Corporate Secretary are officers of the Company and are expected to observe the highest degree of professionalism, integrity, and diligence.

4.1.2.3 Qualifications

4.1.2.3.1 The Corporate Secretary and the Assistant Corporate Secretary shall be resident Filipino citizens of good moral character.

4.1.2.3.2 Both shall have adequate legal, administrative, and interpersonal skills.

4.1.2.4 Duties and Responsibilities

4.1.2.4.1 The Corporate Secretary and Assistant Corporate Secretary are primarily responsible to the Company and its shareholders, and not to the Chairman or President of the Company and has, among others, the following duties and responsibilities:

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- i. Assist the Board and the Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its Committees to set agenda for those meetings;
- ii. Safekeep and preserve the integrity of the minutes of the meetings of the Board and its Committees, as well as other official records of the Company;
- iii. Keep abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Company, and advise the Board and the Chairman on all relevant issues as they arise;
- iv. Work fairly and objectively with the Board, Management and shareholders and contribute to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- v. Advise on the establishment of board committees and their terms of reference;
- vi. Inform members of the Board, in accordance with the by-laws, of the agenda of their meetings, at least five (5) working days in advance, and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- vii. Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- viii. Perform required administrative functions;
- ix. Oversee the drafting of the by-laws and ensure that they conform with regulatory requirements; and
- x. Perform such other duties and responsibilities as may be provided by the SEC.

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4.1.3 COMPLIANCE OFFICER

4.1.3.1 The Board should ensure that it is assisted in its duties by a Compliance Officer who is a member of the Company's management team in charge of the compliance function.

4.1.3.2 The Compliance Officer should not be a member of the Board of Directors and should annually attend a training on corporate governance.

4.1.3.3 Qualification

The Compliance Officer should have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the Corporation.

4.1.3.4 Duties and Responsibilities

4.1.3.5 Similar to the Corporate Secretary, the Compliance Officer is primarily liable to the Company and its shareholders, and not to the Chairman or President of the Company.

4.1.3.6 He/she has, among others, the following duties and responsibilities:

4.1.3.6.1 Ensure proper on boarding of new directors (i.e., orientation on the Company's business, charter, articles of incorporation and by-laws, among others);

4.1.3.6.2 Monitor, review, evaluate and ensure the compliance by the Company, its officers and directors with the relevant laws, rules and regulations and all governance issuances of regulatory agencies;

4.1.3.6.3 Report violations of the aforementioned rules to the Board and recommend the imposition of appropriate disciplinary action;

4.1.3.6.4 Ensure the integrity and accuracy of all documentary submissions to regulators;

4.1.3.6.5 Appear before the SEC when summoned in relation to compliance with the Code of

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- Corporate Governance for Publicly-Listed Companies and other regulatory issuances;
- 4.1.3.6.6 Collaborate with other departments to properly address compliance issues; which may be subject to investigation;
 - 4.1.3.6.7 Identify possible areas of compliance issues and work towards the resolution of the same;
 - 4.1.3.6.8 Ensure the attendance of board members and key officers to relevant trainings; and
 - 4.1.3.6.9 Perform such other duties and responsibilities as may be provided by the SEC.

4.2 ROLES AND RESPONSIBILITIES OF THE BOARD

The Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all shareholders.

4.2.1 General Responsibility

It is the Board's responsibility to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders and other stakeholders.

- 4.2.1.1 The Board of Directors is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.
- 4.2.1.2 The Board shall establish, review, and update the Company's vision, mission, core values, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.
- 4.2.1.3 The Board shall have a strategy execution process that facilitates effective management performance and is attuned to the Company's business environment, and culture.
- 4.2.1.4 A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness.

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4.2.2 Specific Duties and Functions

To ensure a high standard of best practice for the Company, its stockholders and other stakeholders, the Board shall:

- 4.2.2.1 Adopt a process of selection that encourages diversity and ensures a mix of competent directors and officers, without regard to gender, race, or religion;
- 4.2.2.2 Oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;
- 4.2.2.3 Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;
- 4.2.2.4 Ensure that the Company complies with all relevant laws, regulations and endeavor to adopt best business practices;
- 4.2.2.5 Identify the Company's stakeholders in the community in which it operates or are directly affected by its operations and oversee Management's formulation and implementation of the Company's policy on communicating or relating with them through an effective investor relations program and other appropriate communication programs;
- 4.2.2.6 Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;
- 4.2.2.7 Provide oversight with regard to enterprise risk management;
- 4.2.2.8 Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- 4.2.2.9 Ensure that the Company establishes appropriate policies and procedures in accordance with this Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;
- 4.2.2.10 Constitute Board Committees that it deems necessary to assist the Board in the performance of its duties and responsibilities;
- 4.2.2.11 Create and maintain an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable; and
- 4.2.2.12 Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing law, rules and regulation.

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4.2.3 Chairman of the Board

In addition to the duties provided in the By-Laws of the Company, the responsibilities of the Chairman in relation to the Board shall include the following:

- 4.2.3.1 Make certain that the meeting agenda focuses on strategic matters, including the over-all risk appetite of the corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- 4.2.3.2 Guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- 4.2.3.3 Facilitate discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- 4.2.3.4 Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- 4.2.3.5 Assure the availability of proper orientation for first time directors and continuing training opportunities for all directors; and
- 4.2.3.6 Make sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

4.2.4 Board Nomination and Election Policy

The Board shall adopt a formal and transparent board nomination and election policy that should include how it accepts nominations from minority shareholders and reviews nominated candidates. The policy should also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. Its process of identifying the quality of directors should all be aligned with the strategic direction of the Company.

In addition, the policy shall set forth the following procedures and safeguards in the director selection process:

- 4.2.4.1 The Board, through its Nomination and Governance Committee (the "Nom&Gov Committee"), shall receive all letters nominating

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candidates for election as directors/independent directors from stockholders.

4.2.4.2 The Nom&Gov Committee shall evaluate and screen nominees for directors vis-à-vis the applicable qualifications and disqualifications as set forth in the Company's Manual on Corporate Governance, By-Laws and other applicable policy, law or regulations while ensuring that said qualifications are in line with the strategic objectives of the Company.

4.2.4.3 For nominees for independent directors, the Committee shall determine whether or not the nominees meet the independence criteria set forth in the Company's Manual on Corporate Governance, By-Laws and other applicable policy, law or regulation.

4.2.4.4 The Committee shall also consider other relevant factors, such as any conflict of interest and directorships and/or positions in other corporations, which may compromise their capacity to diligently and effectively serve and perform their duties to the Board, the Company and its stakeholders, when elected.

4.2.4.5 With the assistance of an executive search firm, if necessary, the Committee shall develop a list of nominees to be recommended to the Board, ensuring thereby that:

4.2.4.5.1 the composition of the Board is an effective and balanced mix of knowledge, expertise, experience, complementary skills and talents that are mutually enforcing and promotes diversity in terms of gender and ethnicity, among others; and

4.2.4.5.2 the selection of directors and independent directors is aligned and consistent with the Company's Mission, Vision and strategic directions and the Board's duties and responsibilities. Whenever applicable, the Committee shall undertake the following procedures:

- Identification of the necessary skills and qualifications that are aligned and will promote the achievement of the Company's Mission, Vision and strategic objectives.
- Assessment of the existing board's composition which entails cataloging member's skills and experience;

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- Comparison of the existing board's inventory of qualifications with the list of desired skills and experience to develop a clear picture of gaps, if any. The Committee may also identify potential upcoming vacancies owing to retirement or resignation in order to account for potential required skills and qualifications. The gaps, if any, should function as the driving criteria for the specified qualifications which the Committee shall assemble upon which the nominees shall be measured against.

4.2.4.6 In the search of potential nominees, the Committee may use external sources, such as professional search firms, director databases and/or other reputable external sources to further enhance the search for and widen the base of potential nominees.

4.2.4.7 Nominees for independent directors who accept the nomination are requested to submit to the Committee a Certification of Independent Director stating his/her qualification and a list of affiliations and positions that may directly or indirectly give rise to conflict of interest or may contravene applicable regulations.

4.2.4.8 The Committee shall submit to the Board of Directors its recommended list of final nominees.

4.2.4.9 The nominees approved by the Board are recommended for election as directors at the meeting of the stockholders or the Board, as the case may be.

4.2.5 Compensation of Directors

Directors, as such, shall not receive any compensation unless approved by the stockholders or provided in the By-Laws of the Company. No director should participate in the approval of his compensation. However, the Board may, from time to time, approve a reasonable *per diem* that a director may receive for attendance in Board and Board Committee meetings.

4.2.6 Related Party Transaction

The Board shall have overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions.

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4.2.6.1 The policy should include appropriate review and approval of material RPTs, which guarantee fairness and transparency of the transactions and should encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations.

4.2.7 The policy should clearly define the threshold for disclosure and approval of RPTs and categorize such transactions according to those that are considered *de minimis* or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The aggregate amount of RPTs within any twelve (12) month period should be considered for purposes of applying the thresholds for disclosure and approval.

4.2.7 **Management Control**

The Board shall be primarily responsible for approving the selection and facilitating performance assessment of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions such as Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive. The Board shall establish an effective performance management framework that ensures that Management and employee performance is at par with the standards set by the Board and Senior Management.

4.2.8 **Board Charter**

The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary role and serves as a guide to the directors in the performance of their functions.

4.2.9 **Insider Trading**

The Board shall ensure that the Company adopts and implements an Insider Trading Policy which shall regulate the 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 good corporate governance and transparency.

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4.3 BOARD COMMITTEES

4.3.1 The Board shall establish board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities and in ensuring compliance with the principles of good corporate governance.

4.3.2 Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration

4.3.3 The members of such Committees shall be appointed by the Board of Directors annually.

4.3.4 All established committees shall have publicly-available Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should also provide the standards for evaluating the performance of the Committees.

4.3.5 Executive Committee

4.3.5.1 The Board of Directors shall, by a majority vote, designate five (5) of its members, including one (1) independent director, to constitute an Executive Committee.'

4.3.5.2 The 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 as amended.

4.3.5.3 The Corporate Secretary or a member of the Executive Committee shall keep the minutes of its proceedings; and all such proceedings shall be from time to time reported to the Board of Directors, and shall be subject to revision or alteration by the Board; provided that no rights of third persons shall be affected by such revision or alteration.

4.3.6 Nomination and Governance Committee

4.3.6.1 The Nomination and Governance Committee shall be composed of at least three (3) directors, one of whom, the Chairman, must be an independent director.

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4.3.6.2 The Nomination and Governance Committee shall have the following duties and responsibilities:

- 4.3.6.2.1 Oversee the implementation of the corporate governance framework and periodically review the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;
- 4.3.6.2.2 Oversee the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
- 4.3.6.2.3 Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- 4.3.6.2.4 Recommend continuing education/training programs for directors, assignment of tasks/projects to board committees and succession planning, for the board members;
- 4.3.6.2.5 Adopt corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- 4.3.6.2.6 Determine the nomination and election process for the Company's directors and has the special duty of defining the general profile of board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;
- 4.3.6.2.7 Ensure that the company's whistleblowing system is managed by an independent party to maintain the integrity and impartiality of the review process. In the absence of an external independent party, the Chairman of the Nomination and Governance Committee, who must be an independent director, shall spearhead the review of all whistleblowing reports received by the Corporate Governance Office. This includes overseeing the investigation of reported concerns, ensuring appropriate follow-up actions are taken, and

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safeguarding the anonymity and protection of whistleblowers in accordance with the company's Speak Out Policy and other relevant regulations.

- 4.3.6.2.8 Receive from the Grievance Redressal Officer and endorse to the Board, any procurement-related report in accordance with the objectives set by the ERC Procurement Guidelines for the Regulated Transmission and Distribution of Assets and Services of Regulated Entities and other applicable rules and regulations promulgated by ERC.

4.3.7 Risk Management Committee

- 4.3.7.1 The Risk Management Committee shall be composed of at least three (3) directors, and the Chairman shall, as much as practicable be, an Independent Director.

- 4.3.7.2 The Risk Management Committee shall have the following duties and responsibilities:

- 4.3.7.2.1 Develop a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies and (e) continuing assessments to improve risk strategies, and (e) continuing assessments to improve risk strategies, processes and measures;

- 4.3.7.2.2 Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The Risk Management Committee shall conduct regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

- 4.3.7.2.3 Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee shall revisit defined risk

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management strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously impact the likelihood of harm or loss;

4.3.7.2.4 Advise the Board on its risk appetite levels and risk tolerance limits;

4.3.7.2.5 Review at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;

4.3.7.2.6 Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Company and its stakeholders;

4.3.7.2.7 Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Company. This function includes regularly receiving information on risk exposures and risk management activities from Management; and

4.3.7.2.8 Report to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

4.3.8 Audit Committee

4.3.8.1 The Audit Committee shall be composed of at least three (3) directors, preferably with relevant background, knowledge, skills, and/or experience in the areas of accounting and finance, two (2) of whom shall be Independent Directors and another with audit experience. The Chairman shall be an Independent Director. Each member shall have adequate understanding at least or competence at most of the Company's financial management systems and environment.

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4.3.8.2 The Audit Committee shall have the following duties and responsibilities:

- 4.3.8.2.1 Perform oversight functions over the Company's internal and external auditors. It should ensure that internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties, and personnel to enable them to perform their respective audit functions;
- 4.3.8.2.2 Approve and recommend the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor should be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change should be disclosed to the regulators and the public through the Company website and required disclosures;
- 4.3.8.2.3 Review and assess the integrity and independence of external auditors and exercise effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The review and monitoring of the external auditor's suitability and effectiveness shall be done on an annual basis;
- 4.3.8.2.4 Review and approve the annual internal audit plan to support the attainment of the objectives of the Company. The plan shall include the audit scope, resources, and budget necessary to implement it;
- 4.3.8.2.5 Prior to commencement of the audit, discuss with the external auditor the nature, scope, and expenses of the audit, and ensure proper coordination if more than one (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- 4.3.8.2.6 Organize an internal audit department and consider the appointment of an independent internal auditor as well as consider an independent external auditor, and the terms and conditions of their engagement and removal;

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- 4.3.8.2.7 Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;
- 4.3.8.2.8 Review the reports submitted by the internal and external auditors;
- 4.3.8.2.9 Review the completeness, accuracy, and fairness of the quarterly, half-year, and annual financial statements before their submission to the Board or regulators with particular focus on the following matters:
- i. Any change/s in accounting principles and practices
 - ii. Major judgmental areas
 - iii. Significant adjustments resulting from audit
 - iv. Going concern assumptions
 - v. Compliance with accounting standards
 - vi. Compliance with tax, legal, and regulatory requirements.
- 4.3.8.2.10 Coordinate, monitor, and facilitate compliance with laws, rules, and regulations;
- 4.3.8.2.11 Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses.
- The Audit Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report;
- 4.3.8.2.12 Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfil his duties and responsibilities. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties;
- 4.3.8.2.13 Elevate to international standards the accounting and auditing processes, practices and methodologies; and

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4.3.8.2.14 Such other duties and responsibilities as may be provided in the Audit Committee Charter.

4.3.8.3 The Audit Committee shall meet quarterly and as often as may be necessary.

4.3.9 **Remuneration and Leadership Development Committee**

4.3.9.1 The Remuneration and Leadership Development Committee preferably shall be composed of at least three (3) directors, one of whom shall be an independent director.

4.3.9.2 The Remuneration and Leadership Development Committee shall have the following duties and responsibilities:

4.3.9.2.1 Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy, and the business environment in which it operates;

4.3.9.2.2 Oversee the formulation of the compensation and retirement philosophy as well as study and evaluate the appropriate compensation, retention, and retirement policies and programs for the officers of the Company as appointed in accordance with the Company's By-Laws, as well as managers or executives with the rank of assistant vice president and up;

4.3.9.2.3 Review management succession plan; and

4.3.9.2.4 Such other duties and responsibilities as may be provided in the Remuneration and Leadership Development Committee Charter.

4.3.10 **Finance Committee**

4.3.10.1 The Finance Committee shall be composed of at least three (3) directors with the Chief Finance Officer as ex-officio member, one (1) of whom shall be an independent director.

4.3.10.2 The Finance Committee is in charge of reviewing the financial operations of the Company and matters regarding the acquisitions of or investments in companies, business or

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projects. It endorses recommendations to the Board as deemed appropriate or approved actions within its delegated authority.

4.3.10.3

The Finance Committee shall review, advise and recommend approval, decision or action on financial matters, including but not limited to the following:

- 4.3.10.3.1 Establishment of and changes to financial, accounting and treasury policies;
- 4.3.10.3.2 All major financing transactions of the Company;
- 4.3.10.3.3 Issuance of shares and shares repurchases, valuation of shares, and other such activities involving existing shares;
- 4.3.10.3.4 The Company's corporate plans and budgets;
- 4.3.10.3.5 Major contracts and variations;
- 4.3.10.3.6 Proposals for dividends and transfers to reserve;
- 4.3.10.3.7 Financing guarantees and indemnities and mortgaging of the Company's assets;
- 4.3.10.3.8 Any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;
- 4.3.10.3.9 Guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;
- 4.3.10.3.10 Capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;
- 4.3.10.3.11 Proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment;
- 4.3.10.3.12 The Company's capital and debt structure; and
- 4.3.10.3.13 Such other duties and responsibilities as may be provided in the Finance Committee Charter.

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4.3.11 Related Parties Transactions (RPT) Committee

4.3.11.1 The RPT Committee shall be composed of at least three (3) non-executive directors two of whom should be Independent, including the Chairman.

4.3.11.2 The following are the functions of the RPT Committee among others:

4.3.11.2.1 Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

4.3.11.2.2 Evaluate all material RPTs to ensure that these are not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

In evaluating RPTs, the Committee takes in to account, among others, the following:

- i. The related party's relationship to the Company and interest in the transaction;
- ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
- iii. The benefits to the corporation of the proposed RPT;
- iv. The availability of other sources of comparable products or services; and

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- v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.

- 4.3.11.2.3 Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;
- 4.3.11.2.4 Report to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- 4.3.11.2.5 Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- 4.3.11.2.6 Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

4.3.12 Sustainability Committee

- 4.3.12.1 The Sustainability Committee shall have at least five (5) Directors, one of whom must be an Independent Director. The Chief Sustainability Officer of the Company shall be the non-voting representative of the Management to the Sustainability Committee
- 4.3.12.2 The Sustainability Committee shall be responsible for establishing the sustainability strategy, framework, policies, and programs of Manila Electric Company and its subsidiaries and overseeing the Company's environmental, social, and economic performance vis-à-vis the United Nations' Sustainable

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Development Goals with the aim of fostering long-term value to its stakeholders.

4.3.12.3 The following are the functions of the Sustainability Committee among others:

- 4.3.12.3.1** Oversee the development and/or review of the Company's sustainability framework, agenda and policy in alignment with the Company's business philosophy and strategies;
- 4.3.12.3.2** Monitor the Company's environmental, social, and economic performance against internal targets as well as national, regional, and global sustainability goals and introduce programs and initiatives to support Company's sustainable growth;
- 4.3.12.3.3** Endorse to the Board of Directors sustainability programs with investments worth PHP 50M and above;
- 4.3.12.3.4** Address legislative, and regulatory developments and ensure compliance with laws and regulations affecting the Company's sustainability performance.
- 4.3.12.3.5** Oversee the development and execution of sustainability programs and policies aligned with approved targets;
- 4.3.12.3.6** Evaluate ongoing and proposed programs under each sustainability pillar;
- 4.3.12.3.7** Oversee and review relevant sustainability reporting requirements and disclosures required by investors and ESG rating agencies;
- 4.3.12.3.8** Advise the Board of Directors on material stakeholder concerns relating to sustainability.

4.4 FOSTERING BOARD COMMITMENT TO THE COMPANY

- 4.4.1** Directors shall devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Company's business. For this purpose, the Directors shall attend and actively participate in all meetings of the Board, Committees and shareholders in person or through tele-/video-conferencing conducted in accordance with the rules and regulations of the

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SEC. Meetings of the board of directors shall be scheduled before the start of the financial year.

- 4.4.2 The Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company.

4.5 REINFORCING BOARD INDEPENDENCE

4.5.1 Board Independence

The Board shall endeavor to exercise objective and independent judgment on all corporate affairs by ensuring that it has appropriate number of independent directors and that there are no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.

4.5.2 Independent Directors

- 4.5.2.1 The independent directors should possess all the qualifications and none of the disqualifications to hold the positions. An Independent Director refers to a person who, ideally:

- 4.5.2.1.1 Is not, or has not been a senior officer or employee of the Company unless there has been a change in the controlling ownership of the Company;
- 4.5.2.1.2 Is not, and has not been, in the three years immediately preceding the election, a director of the Company; a director, officer, employee of the Company's subsidiaries, affiliates or related companies; or a director, officer, employee of the Company's substantial shareholders and its related companies;
- 4.5.2.1.3 Has not been appointed in the Company, its subsidiaries, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;

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- 4.5.2.1.4 Is not an owner of more than two percent (2%) of the outstanding shares of the Company, its subsidiaries, affiliates or related companies;
- 4.5.2.1.5 Is not a relative of a director, officer, or substantial shareholder of the Company or any of its related companies or of any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- 4.5.2.1.6 Is not acting as nominee or representative of any director of the Company or any of its related companies;
- 4.5.2.1.7 Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- 4.5.2.1.8 Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;
- 4.5.2.1.9 Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Company or any of its related companies or substantial shareholders;
- 4.5.2.1.10 Is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders; and
- 4.5.2.1.11 Is not employed as an executive officer of another company where any of the Company's executives serve as directors.

Related companies, as used in this section, refer to (a) the Company's holding/parent company; (b) its

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subsidiaries; and (c) subsidiaries of its holding/parent company.

4.5.2.2 As a rule, independent directors may serve for a maximum of nine consecutive years reckoned from 2012, making sure however that the shareholders' legal right to vote and be voted directors remains inviolable. If the Company wants to retain an independent director who has served for nine consecutive years, the Board should provide meritorious justification and advise the shareholders of such justification during the annual shareholders' meeting.

4.5.3 The positions of Chairman of the Board and Chief Executive Officer should, as much as practicable, be held by separate individuals and each should have clearly defined responsibilities.

4.5.4 **Lead Independent Director**

The Board shall have a lead director among the independent directors if the Chairman of the Board is not independent and/or if the positions of the Chairman of the Board and Chief Executive Officer are held by one person. The functions of the lead independent director include, among others, the following:

4.5.4.1 To serve as an intermediary between the Chairman and the other directors when necessary;

4.5.4.2 To convene and chair meetings of the non-executive directors; and

4.5.4.3 To contribute to the performance evaluation of the Chairman, as required.

4.5.5 The non-executive directors shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive director(s) present to ensure that proper checks and balances are in place within the corporation. The meetings should be chaired by the lead independent director or an independent director.

4.5.6 Directors with material interest in a transaction affecting the Company shall abstain from taking part in the deliberations on the transaction.

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4.6 **ASSESSING BOARD PERFORMANCE**

- 4.6.1 The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. The Nomination and Governance Committee shall oversee the assessment/evaluation process.
- 4.6.2 Every three years, as far as practicable, the assessment may be supported by an external facilitator. The external facilitator can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization appointed by the Board.
- 4.6.3 The Board assessment system shall provide a criteria and process to determine the performance of the Board, individual directors and committees. The system shall allow for a feedback mechanism from shareholders.

4.7 **STRENGTHENING BOARD ETHICS**

- a. The Board shall adopt a Code of Business Conduct Ethics, to provide standards for professional and ethical behaviour, as well as articulate acceptable and unacceptable conduct and practices in external and external dealings. The Code shall be properly disseminated to the Board, Senior Management and employees. It shall be disclosed and made available to the public through the Company website. The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.
- b. Effective communication channels must be provided to aid and encourage employees, customers, suppliers and creditors to raise concerns on potential unethical/unlawful behaviour without fear of retribution. The Company's ethics policy shall be made effective and inculcated in the company culture through communication and awareness campaigns, continuous training to reinforce the Code, strict monitoring and implementation.
- c. The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.
- d. The Company shall have clear and stringent policies and procedures on curbing and penalizing company involvement in offering, paying and receiving bribes.

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4.8 The MANAGEMENT

The Management is represented by a Management Committee (Mancom) composed of corporate officers and executives formed and headed by the CEO, or, in his absence, the President. All principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries shall be formulated and implemented by this Committee, subject to Board approval when required by existing laws. The Committee shall regularly report to the Board at its regular Board meeting, or during special meeting whenever necessary or requested by the Board, through the CEO and/or the President, on all matters concerning the Company's operation as well as significant events or occurrences affecting the Company.

4.9 DUTIES AND RESPONSIBILITIES OF THE CEO

The CEO's roles and responsibilities among others shall include:

- 4.9.1 Determine the Company's strategic direction and formulate and implement its strategic plan on the direction of the business;
- 4.9.2 Communicate and implement the Company's vision, mission, values and overall strategy and promote any organization or stakeholder change in relation to the same;
- 4.9.3 Oversee the operations of the Company and manage human and financial resources in accordance with the strategic plan;
- 4.9.4 Has a good working knowledge of the corporation's industry and market and keep up to date with its core business purpose;
- 4.9.5 Direct, evaluate and guide the work of the key officers of the Company;
- 4.9.6 Manage the Company's resources prudently and ensure a proper balance of the same;
- 4.9.7 Provide the Board with timely information and interfaces between the Board and the employees;
- 4.9.8 Build the corporate culture and motivate the employees of the corporation; and
- 4.9.9 Serve as the link between internal operations and external stakeholders.

4.10 SUPPLY OF INFORMATION

- 4.10.1 All directors should be provided with complete, adequate and timely information about the matters to be taken up in their meetings and which would enable them to discharge their duties.

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- 4.10.2 Management is responsible for providing the Board with appropriate and timely information. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.
- 4.10.3 The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.
- 4.10.4 Full agenda and comprehensive Board papers are to be circulated to all directors well in advance of each Board meeting.
- 4.10.5 Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.

4.11 **DISCLOSURE AND TRANSPARENCY**

4.11.1 **ENHANCING CORPORATE DISCLOSURE POLICIES AND PROCEDURES**

- 4.11.1.1 The Board shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to the shareholders and other stakeholders that gives a fair and complete picture of a Company's financial condition, results and business operations in accordance with the disclosure and reporting requirements of the SEC, Philippine Stock Exchange (PSE) and other regulators.
- 4.11.1.2 The Company shall have a policy requiring all directors and officers to disclose/report to the Company through the Compliance Officer any dealings in the Company's shares within three business days.
- 4.11.1.3 The Company shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment. This includes directors and key officers' qualifications, share ownership in the Company, membership in other boards, other executive positions, and corporate governance trainings attended.
- 4.11.1.4 The Company shall provide a clear disclosure of its policies and procedure for setting board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Remuneration shall as much as practicable

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be on an individual basis, including termination and retirement provisions.

4.11.1.5 The Company shall disclose its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions. The material or significant RPTs reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report.

4.11.1.6 The Company shall require directors to disclose their interests in transactions or any other conflict of interests.

4.11.1.7 The Company shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occur, particularly on the mergers, takeovers, or acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. For this purpose, that Board shall consider appointing an independent party to evaluate the fairness of the transaction price.

4.11.1.8 The Board shall have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Company shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

4.11.1.9 The Company shall include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

4.11.2 **ENSURING ACCOUNTABILITY**

4.11.2.1 The Board shall ensure that stockholders are provided with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

4.11.2.2 Management should formulate the rules, procedures on internal controls, and financial operations for presentation to the Audit

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Committee and the Risk Management Committee in accordance with the following guidelines:

4.11.2.2.1 The extent of its responsibility in the preparation of the financial statements of the Company, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;

4.11.2.2.2 An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company should be maintained for the benefit of all stockholders and other stakeholders;

4.11.2.3 On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations; and

4.11.2.4 The Company should consistently comply with the financial reporting requirements of the SEC.

4.11.3 STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY

4.11.3.1 The Audit Committee shall adopt a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditors.

4.11.3.2 The appointment, reappointment, removal, and fees of the external auditor shall be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For this purpose:

4.11.3.2.1 The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC who shall

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undertake an independent audit of the Company, and shall provide an opinion on the manner by which the financial statements shall be prepared and presented to the stockholders.

4.11.3.2.2 The reason(s) for the resignation, dismissal or cessation from service of an external auditor and the date thereof shall be reported in the Company's annual and current reports. Said report should include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

4.11.3.2.3 If an external auditor believes that the statements made in the Company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he/she shall present his views in said reports.

4.11.3.3 The external auditor of the Company should not at the same time provide the services of an internal auditor.

4.11.3.4 The Company's external auditor should be rotated or the handling partner should be changed every five (5) years or such period provided under applicable laws and regulations.

4.11.3.5 The Audit Committee shall ensure that the external auditor has adequate quality control procedures and is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.

4.11.3.6 The Audit Committee Charter should include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter should also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

4.11.3.7 The Company shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal

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with the potential conflict of interest, always ensuring that fees paid for non-audit services do not outweigh the fees paid for audit services. The Audit Committee shall stay alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

4.11.4 INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING

4.11.4.1 The Board shall have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability.

4.11.4.2 The Company should adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

4.11.5 PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION

The Company shall maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This includes media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

4.11.6 STRENGTHENING INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK

4.11.6.1 Internal Control System

4.11.6.1.1 The Board shall oversee that an adequate and effective internal control system is in place.

4.11.6.1.2 Internal Controls Responsibilities of the Company

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The control environment of the Company shall consist of:

- The Board which ensures that the Company is properly managed and effectively supervised;
- The Management that actively manages and operates the Company in a sound and prudent manner;
- The organizational and procedural controls supported by effective management information and risk management reporting systems; and
- An independent audit mechanism to monitor the adequacy and effectiveness of the Company's financial reporting, governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, confidential information, and compliance with laws, rules, regulations and contracts.

4.11.6.1.3 The Board's internal control mechanisms for the Board's oversight responsibility may include:

- i. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Company's organizational and operational controls;
- ii. Selection of a CEO who possesses the ability, integrity and expertise essential for the position;
- iii. Establishment by the Company of an internal audit system that can reasonably assure the Board, Management, and stockholders that the Company's key organizational and operational controls are appropriate, adequate, effective, and complied with;

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- iv. Selection and appointment of proposed senior management officers; and
- v. Review of the Company's personnel and human resource policies and sufficiency, conflict of interest situations, changes in the compensation plan for employees and succession plan for officers and management.

4.11.6.1.4 The Company shall have in place an independent internal audit function that provides independent and objective assurance, and consulting services designed to add value and improve the Company's operations. The following are the functions of the internal audit group among others:

- i. Provide an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of governance and control processes in (1) promoting the right value and ethics; (2) ensuring effective performance management and accounting in the organization; (3) communicating risk and control information; and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- ii. Perform regular and special audit as contained in the annual audit plan and/or based on the Company's risk assessment;
- iii. Perform consulting and advisory services related to governance and control as appropriate for the organization;
- iv. Perform compliance and audit of relevant laws, rules and regulations, contractual obligations and other commitments, which

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could have a significant impact on the organization;

- v. Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of the Company;
- vi. Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- vii. Evaluate specific operations at the request of the Board or Management, as appropriate; and
- viii. Monitor and evaluate governance processes.

4.11.6.1.5 The Board shall appoint a Chief Audit Executive (CAE) to oversee and be responsible for the internal audit activity of the organization. The following are the responsibilities of the CAE among others:

- i. Periodically review the internal audit charter and present it to Senior Management and the Board Audit Committee for approval;
- ii. Establish a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
- iii. Communicate the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to Senior Management and the Audit Committee for review and approval;
- iv. Spearhead the performance of the internal audit activity to ensure it adds value to the organization;

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- v. Report periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- vi. Present findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.

4.11.6.2 **Enterprise Risk Management**

4.11.6.2.1 The Company shall have in place a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess and manage key business risks. The risk management framework guides the board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

4.11.6.2.2 **Risk Management**

The Company shall have a separate risk management function to identify, assess and monitor key risk exposures.

The risk management function involves the following activities, among others:

- i. Defining a risk management strategy;
- ii. Identifying and analysing key risk exposures relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
- iii. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;
- iv. Establishing a risk register with clearly defined, prioritized and residual risks;

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- v. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;
- vi. Communicating and reporting significant risk exposures including business risks (e.g. strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
- vii. Monitoring and evaluating the effectiveness of the organization's risk management processes.

4.11.6.2.3 Chief Risk Officer

The Company shall appoint a Chief Risk Officer (CRO) to manage its Risk Management System. The CRO shall have the following functions among others:

- i. Supervise the entire Enterprise Risk Management (ERM) process and spearhead the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
- ii. Communicate top risks and the status of the implementation of risk management strategies and action plans to the Board Risk Management Committee;
- iii. Collaborate with the CEO in updating and making recommendations to the Board Risk Management Committee;
- iv. Suggest ERM policies and related guidance, as may be needed; and
- v. Provide insights on the following:
 - Risk management processes are performing as intended;

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- Risk measures reported are continuously reviewed by risk owners for effectiveness; and
- Established risk policies and procedures are being complied with.

4.11.6.3 **Enterprise-wide Compliance Program**

The Company shall have a formal comprehensive enterprise-wide compliance program covering compliance with laws and relevant regulations that is annually reviewed. The program includes appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances.

4.11.6.4 **IT Governance Process**

The Company shall have a governance process on IT issues including disruption, cyber security, and disaster recovery, to ensure that all key risks are identified, managed and reported to the Board.

4.11.7 **CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS**

4.11.7.1 The Company shall treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

4.11.7.1.1 **Voting Right**

- Stockholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- Cumulative voting shall be used in the election of directors.

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4.11.7.1.2 **Pre-emptive Right**

Unless otherwise stated in the Articles of the Incorporation or the Corporation Code of the Philippines, all stockholders shall enjoy pre-emptive right to subscribe to all issues or disposition of shares in proportion to their respective shareholdings.

4.11.7.1.3 **Right of Inspection**

Any stockholder who desires to exercise his right to inspect corporate books and records of the Company must make a written request addressed to the Corporate Secretary, and stating the specific reason(s) or purpose(s) for the inspection. The exercise of such right may be denied if:

- i. the requesting stockholder improperly used information obtained from prior examination; or,
- ii. is not acting in good faith; or,
- iii. there is a reasonable ground to safeguard the interests of the Company, such as when the subject of inspection contains confidential or proprietary information or covered by a confidentiality or nondisclosure obligation which will be violated by the Company if inspection were allowed. In no case shall the stockholder be allowed to take corporate books and other records out of the principal office of the Company for the purpose of inspecting them. The Corporate Secretary may elevate the request for inspection for the information, approval, or other appropriate action by the Board. This Manual shall be available for inspection by any stockholder of the Company at reasonable hours on business days.

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4.11.7.1.4 Right to Information

Stockholders shall be provided, upon request, with periodic reports filed by the Company with the SEC (e.g., proxy statement/information statement and annual report) which disclose personal or professional information about the Directors and Officers such as their educational and business background, holdings of the Company's shares, material transactions with the Company, relationship with other Directors and Officers and the aggregate compensation of Directors and Officers.

4.11.7.1.5 Right to Dividends

- i. Stockholders shall have the right to receive declared dividends subject to the procedures prescribed by the Board.
- ii. The Company shall be compelled to declare dividends when its retained earnings exceeds 100% of its paid-in capital stock, except:
 - when justified by definite corporate expansion projects or programs approved by the Board; or
 - when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
 - when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

4.11.7.1.6 Appraisal Right

The stockholders shall have appraisal right under any of the following circumstances:

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- i. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any aspect superior to those of outstanding shares of any class, or of extending or reducing the term of corporate existence;
- ii. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the property and assets of the Company;
- iii. In case of merger or consolidation; and
- iv. Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized.

4.11.7.1.7 Right to Transparent and Fair Conduct of Stockholders' Meeting

- i. The Board shall afford stockholders the right to call a special meeting, propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. The Board shall also adopt appropriate measures to ensure that stockholders' meetings are conducted in a fair and transparent manner.
- ii. The Board shall encourage active shareholders' participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) working days before the meeting or such number of days as may be provided in the By-Laws or applicable laws, rules and regulations. Shareholders unable to personally attend such meetings, should be advised ahead of time of their right to appoint a proxy on their behalf or attend the meeting *in*

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absentia through remote communications as may be provided by the Company.

- iii. Subject to the requirements of law, rules and regulations, the By-Laws of the Company and the rules approved by the Board, the validity of a proxy should be resolved in favor of the stockholder. It shall be the duty of the directors to promote stockholder rights, remove impediments to the exercise of stockholders' rights and allow possibilities to seek redress for violation of their rights. The directors shall envisage the exercise of stockholders' voting rights and the solution of problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to stockholders participating in meetings and/or voting in person.
- iv. The Company shall adopt secure electronic voting in absentia at the Annual Shareholders' Meeting.
- v. The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available on the Company website within five business days from the end of the meeting.

4.11.7.2 The Board shall adopt and make available at the option of a shareholder, an established alternative dispute resolution (ADR) mechanism to resolve intra-corporate disputes in an amicable and effective manner.

4.11.7.3 The Board shall establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders.

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4.12 DUTIES TO STAKEHOLDERS

- 4.12.1 The Board shall identify the Company's various stakeholders and promote cooperation between them and the Company in creating wealth, growth and sustainability.
- 4.12.2 The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.
- 4.12.3 The Board shall adopt a transparent framework and process that allows stakeholders to communicate with the Company and to obtain redress for the violation of their rights. Stakeholder engagement touch points in the Company such as the Investor Relations Office, Office of the Corporate Secretary, Customer Relations Office, and Corporate Communications Group shall be strengthened.
- 4.12.4 The Board shall establish policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and in its governance. This includes reward/compensation policy that accounts for the performance of the Company beyond short-term financial measures and policies and practices on health, safety and welfare as well as training and development of its employees.
- 4.12.5 The Board shall adopt an anti-corruption policy (encompassing corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering) and program in its Code of Conduct. This shall be disseminated to employees across the organization.
- 4.12.6 The Board shall establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall conscientiously supervise and ensure enforcement of the framework.
- 4.12.7 The Company shall not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the Company discloses the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.
- 4.12.8 The Company shall recognize and place importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Company to grow its business, while contributing to the advancement of the society where it operates.

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4.12.9 The Company shall ensure that its value chain is environmentally friendly or is consistent with promoting sustainable development and shall exert effort to interact positively with the communities in which it operates.

5. Communication and Training Process

- 5.1. All Company directors, officers and organizational heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 5.2. An adequate number of printed copies of this Manual must be reproduced and distributed to each department of the Company.
- 5.3. Funds will be allocated by the Company for the purpose of conducting an orientation program or workshop to operationalize this Manual.
- 5.4. A director shall, before his assumption of duty, be required to attend a seminar on corporate governance which shall be conducted by a recognized and reputable training provider.

6. Governance Rating System

The Board shall develop a rating system to measure the performance of the Board and Management in accordance with the criteria provided in this Manual and other rules and regulations on good corporate governance.

7. Penalties

- 7.1 The Compliance Officer shall be specifically tasked with the responsibility of ensuring compliance with the Manual.
- 7.2 The Compliance Officer shall, after proper investigation, notice and hearing, determine and recommend to the Board, the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent repetition of the violation.

8. Applicability to Subsidiaries

Subsidiaries of the Company are encouraged to adopt their own Manuals of Corporate Governance.

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9. Separability

The Board endeavours to comply at all times with the principles set out in this Manual. In case of conflict between the Code of Corporate Governance issued by the SEC and this Manual, the Code shall prevail. If the conflict is such that the affected provision of this Manual is rendered invalid, the rest of the revisions of this Manual shall remain valid.

10. Effectivity

The Manual was approved on July 29, 2024 by the Board of Directors. It shall be published in the Website of the Company and shall take effect immediately. It superseded the previous Manual on Corporate Governance that was approved and adopted by the Company on July 28, 2014, April 24, 2017, and July 25, 2022.

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ENDORSED BY:

On behalf of the Nomination and Governance Committee

Sgd. MR. PEDRO EMILIO O. ROXAS

Chairman, Nomination and Governance Committee

APPROVED BY:

On behalf of the MERALCO Board

Sgd. MR. MANUEL V. PANGILINAN

Chairman of the Board