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### **Preliminary Statement**

This constitutes the Charter of the Board of Directors (the “Board”) of Manila Electric Company (the “Company”) which sets forth its purposes, authority, duties and responsibilities, structure and procedures in accordance with Securities and Exchange Commission (“SEC”) Memorandum Circular No. 19, Series of 2016, otherwise known as the Revised Code of Corporate Governance for Publicly Listed Companies issued on November 22, 2016.


The provisions in this Charter were lifted from the Company’s Article of Incorporation (AOI), By-Laws, Revised Manual of Corporate Governance (MCG), Board Committee Charters and Policies approved by the Board.

#### **I. Composition**

- A. The Board consists of eleven (11) directors who shall be elected by the stockholders at a regular or special meeting in accordance with the Articles of Incorporation and the By-Laws of the Company. (*Article 6, AOI; Section 1, Article II, By-laws; Section 1.1, Article I, MCG*)
- B. 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. (*Section 1.2, Article I, MCG*)

#### **II. Board Diversity**

- A. The Board adopts a Board Diversity Policy to ensure that the Board has an appropriate mix of expertise, experience, independence, and skills that would encourage critical discussion and promote a balanced decision in the attainment of the Company’s strategic objectives and sustainable development (*Board Diversity Policy*).
- B. Accordingly, the members of the Board of Directors shall be selected from a broad pool of qualified nominees. In order to achieve a diverse board, varied


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aspects are to be considered, including, but not limited to: academic, professional and business background, age, gender, and other regulatory requirements. The final composition of the board shall be grounded on merit and potential contribution of the selected directors to the Company (*Board Diversity Policy*).

III. **Independent Directors** (*Sections 2.1, 2.2 and 2.3, Article I, MCG*)

A. An Independent Director refers to a person who, ideally:

1. Is not, or has not been a senior officer or employee of the covered company unless there has been a change in the controlling ownership of the company;
2. Is not, and has not been in the three years immediately preceding the election, a director of the covered company; a director, officer, employee of the covered company's subsidiaries, affiliates or related companies; or a director, officer, employee of the covered company's substantial shareholders and its related companies;
3. Has not been appointed in the covered 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;
4. Is not an owner of more than two percent (2%) of the outstanding shares of the covered company, its subsidiaries, affiliates or related companies;
5. Is not a relative of a director, officer, or substantial shareholder of the covered 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;
6. Is not acting as nominee or representative of any director of the covered company or any of its related companies;
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,


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nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

8. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the covered 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;
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 covered company or any of its related companies or substantial shareholders;
10. Is not affiliated with any non-profit organization that receives significant funding from the covered company or any of its related companies or substantial shareholders; and
11. Is not employed as an executive officer of another company where any of the covered company's executives serve as directors.

***Related companies, as used in this section, refer to (a) the covered entity's holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent company.***

- B. As a rule, independent directors may serve for a maximum of nine consecutive years reckoned from 2012, without prejudice to the shareholders' legal right to vote and be voted directors. 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.
- C. The non-executive directors shall have separate periodic meetings with the external auditor and respective 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.

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**IV. Lead Independent Director** (*Section 4.4, Article I, MCG*)


- A. The Board shall designate a lead director among the independent directors if the Chairman of the Board is not an independent director or if the positions of the Chairman of the Board and Chief Executive Officer are held by one (1) person to ensure independent views and perspectives and avoid concentration of power and authority, and potential conflict of interest.
- B. The functions of the lead director include, among others, the following:
1. To serve as intermediary between the Chairman and the other directors when necessary;
  2. To convene and chair meetings of the non-executive directors; and
  3. To contribute to the performance evaluation of the Chairman, as required.
- C. The Lead Independent Director will not, however, act as Chairman in the absence of the Chairman, the same having been delegated to the Vice-Chairman.

**III. Multiple Board Seats** (*Section 3, Article I, MCG*)

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

**IV. Qualifications of Directors** (*Section 6.1, Article I, MCG*)

- A. 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:
1. Possesses the skills needed to effectively carry out his functions as director;
  2. Possesses integrity/probity;
  3. Has strong adherence to legal and moral principles and

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4. Have a practical understanding of business in general and of the business of the Company, in particular.

B. 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 (*Section 6.2, Article I, MCG*).

**V. Disqualification of a Director** (*Section 7, Article I, MCG*)

**A. Permanent Disqualification** (*Section 7.1, Article I, MCG*)


1. 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;

i. an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

ii. 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

iii. having willfully violated, or willfully 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;


2. 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 administrative body of competent jurisdiction from:

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- i. acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;
- ii. acting as director, or officer of a bank, quasi-bank, trust company, investment house, or investment company;
- iii. 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.

3. 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 or misconduct enumerated in paragraphs (1) and (2) above;
  4. 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
  5. Any person judicially declared as insolvent.
- B. Temporary Disqualification** (*Section 7.2, Article I, MCG*)
- The Nomination and Governance Committee may consider and recommend to the Board temporary disqualification of a director based on any of the following grounds:

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1. 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.
2. 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.
3. 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.
4. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

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.

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.

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.


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.

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**VI. Nomination and Election** (*Nomination and Election Policy; (Section 4.8, Article I, MCG)*)


- A. The Board adopts a formal and transparent board nomination and election policy that includes how it accepts nominations from minority shareholders and reviews the qualifications of nominated candidates.
  
- B. The following shall be observed in the director selection process:
  1. The Nomination and Governance Committee (the “Committee”), shall receive all letters nominating candidates for election, as directors/ independent directors from stockholders, including minority stockholders, on or before the Record Date for the Annual Stockholders’ Meeting.
  
  2. The nominating stockholder must indicate his or her complete name, address and/or other contact details, number of Company shares registered in his own name with the corresponding stock certificate number.
  
  3. The 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 and in line with the strategic objectives of the Company.
  
  4. 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.
  
  5. 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



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perform their duties to the Board, the Company and its stakeholders, when elected.

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.
7. 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:
  - i. 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
  - ii. 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:
    - ii.i Identification of the necessary skills and qualifications that are aligned and will promote the achievement of the Company's Mission, Vision and strategic objectives.
    - ii.ii Assessment of the existing board's composition which entails cataloging member's skills and experience;
    - ii.iii 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

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retirement or resignation in order to account for potential required skills and qualifications.

- ii.iv 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.

8. 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.

9. The Committee shall submit to the Board of Directors its recommended list of final nominees at least forty-five (45) business days prior to the Annual Stockholders' Meeting.


10. The nominees approved by the Board shall be considered for election as directors at the meeting of the stockholders.

**VII. Duties and Responsibilities of the Board** (*Section 4, Article I, MCG*)

**A. General Responsibility**

It is the Board's responsibility to foster the long-term success of the Company, and sustain its competitiveness and profitability for the benefit and in the best interest of its stockholders, employees, customers and other stakeholders.

- 1. The Board shall establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.


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2. A director’s office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity, and fairness. (MCG)

**B. Specific Duties and Functions**

The Board shall:


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;
2. Oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;
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. Ensure that the Company complies with all relevant laws, regulations and adopt best business practices;
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;
6. Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;
7. Provide oversight with regard to enterprise risk management;
8. Identify key risk areas and key performance indicators and monitor these factors with due diligence;

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9. Ensure that the Company establishes appropriate policies and procedures in accordance with this Revised Manual and applicable laws and regulations, including, but not limited to, conflict of interest and related party transactions;
10. Constitute Board Committees, that it deems necessary to assist the Board in the performance of its duties and responsibilities;
11. Consider the creation and maintenance of an alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable; and
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. (MCG)

**VIII. Chairman of the Board** (*Sections 4.3. and 4.6, Article I, MCG*)

- A. 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.
- B. 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:
  1. Makes 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;
  2. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;

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3. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
4. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
5. Assures the availability of proper orientation for first time directors and continuing training opportunities for all directors; and
6. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.


**IX. Duties and Responsibilities of a Director** (*Section 7.3, Article I, MCG*)

A director shall have the following duties and responsibilities:

- a. To conduct fair business transactions with the Company and ensure that his personal interest does not conflict with the interest of the Company;
- b. To devote time and attention necessary to properly discharge and effectively perform his duties and responsibilities;
- c. To act judiciously;
- d. To exercise independent judgment;
- e. The non-executive directors of the Board may concurrently serve as directors of other publicly listed companies but they must 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.

- f. To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its Articles of

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Incorporation and By-Laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies;

- g. To observe confidentiality of information; and
- h. To ensure the continuing soundness, effectiveness and adequacy of the Company's control environment.

**X. Board Assessment** (*Section 4.7, Article I, MCG*)

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.


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.

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.

**XI. Orientation and Continuing Education** (*Section 4.5, Article I, MCG*)

All directors shall undergo relevant and continuing training for a duration equal to or longer than what is required by law and regulations. First time directors shall undergo an orientation program covering SEC mandated topics on corporate governance and an introduction to the company's business, Articles of Incorporation, and Code of Conduct. The orientation and continuing education program 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.

The annual continuing training program, on the other hand, makes certain that the directors are continuously informed of the developments in the business

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and regulatory environments, including emerging risks relevant to the company. (MCG)

**XII. Compensation of Directors** (*Section 8, Article I, MCG*)

Directors, as such, shall not receive any compensation unless approved by the stockholders or provided in the By-Laws of the Company. However, the Board may approve a reasonable *per diem* that a director may receive for attendance in Board and Board Committee meetings.


**XIII. Board Committees** (*Section 9, Article I, MCG*)

The Board of Directors shall form Board Committees to aid in ensuring compliance with the principles of good corporate governance. The members of such Committees shall be appointed by the Board of Directors annually.

All established committees shall have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees. It should be fully disclosed on the company's website.

**XIV. Board Meetings**

- A. There shall be a first meeting of the Board of Directors, for organization, immediately after their election, of which meeting no notice shall be required. Thereafter, regular meetings may be held at such time and in such places, and upon such notice, if any, as the Board of Directors may by resolution prescribe (*Section 4, Article II, By-laws*).
- B. Special meetings of the Board may be called by the Chairman or by written request of any two directors, upon at least one (1) day's notice of the time and place of holding the same, given personally or by letter, telegram or telephone (*Section 4, Article II, By-laws*).
- C. Meetings may be held at any time and place without notice if all the directors are present or of those not present waive notice in writing before or after the meeting (*Section 4, Article II, By-laws*).

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- D. The Corporate Secretary and the Assistant Corporate Secretary shall 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 agendas for those meetings (*Section 12.2.a, Article I, MCG*).
- E. Members of the Board or Board Committees shall be informed of the agenda of their meetings, at least five working days in advance, and provided with accurate information that will enable them to arrive at intelligent decisions on matters that require their approval (*Section 12.2.f, Article I, MCG*).
- F. The Board observes the pertinent portions in the guidelines set in SEC Memorandum Circular No. 15, Series of 2001 in the conduct of Board meetings through teleconferencing or videoconferencing.

#### **XV. Amendment**

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by a resolution of the Board.

Reviewed by:

**Sgd. Pedro E. Roxas**

Chairman, Nomination and Governance Committee

Approved by:

**Sgd. Manuel V. Pangilinan**

Chairman of the Board