

# Upholding Good Corporate Governance

Energy Development Corporation (the Company, or EDC) acknowledges that good corporate governance strengthens and stabilizes a company.

The Company's leadership and stakeholders continue their commitment to good corporate governance practices based on the Revised Corporation Code, corporate governance rules and regulations, the Company's By-Laws, and its Manual of Corporate Governance.

## I. CORPORATE GOVERNANCE OVERVIEW

EDC's Board of Directors undertakes the primary responsibility of governing the Company and overseeing the management of its businesses by setting the direction, pace, and strategies for its operations and future projects. The Board likewise leads in annually affirming EDC's vision, mission, and core values.

In the Board's Strategic Planning Session held last September 13, 2019, the Board affirmed EDC's vision and mission statements and corporate objectives, analyzed and assessed the Company's business environment and major opportunities, and determined strategies to grow the Company amidst the evolving challenges in the energy industry.



Discussions within various Board Committees also served as venues for further and independent checks on Management's implementation of business objectives and strategies, and for group synergy and constructive deliberations on business strategies, insights, and direction. In 2019, the Board, through its various Board Committees, also reviewed EDC's overall risk management system and internal controls covering operational, financial and compliance areas.

## II. CORPORATE GOVERNANCE POLICIES AND INITIATIVES

EDC's corporate governance practices that are embodied in manuals, policies, and guidelines help the Company fulfill its corporate responsibility to its stakeholders. These corporate governance practices are primarily embodied in the Company's Manual of Corporate Governance, Code of Conduct and Business Ethics, and Code of Conduct and Discipline.

Notable also are other company policies and manuals that contribute to EDC's corporate governance system, such as the policies on Conflict of Interest, Protected Disclosures, Giving and Receiving of Corporate Gifts, Fraud, and Related Party Transactions, as well as the manual on Enterprise Risk Management.

Below are short descriptions of EDC policies and initiatives that promote good corporate governance:

**a. Manual of Corporate Governance (CG Manual)**

Together with the Articles of Incorporation, By-Laws, and Board Committee Charters, the CG Manual lays down the basic principles and governance framework that the Board of Directors and the officers of the Company are called to observe and practice alongside efforts to achieve the Company's objectives. The CG Manual contains corporate governance principles, structures, and processes covering the rights of stockholders, the minimum qualifications of directors, and the primary roles and duties of directors and officers, among others.

As part of Board oversight, the CG Manual is periodically reviewed to ensure that the Company's corporate governance practices remain relevant and effective while the Company works towards the attainment of its corporate objectives. In 2017, EDC's CG Manual was reviewed and updated to align with the pertinent provisions of SEC Memorandum Circular No. 19, series of 2016 or the Code of Corporate Governance for Publicly-Listed Companies and to respond to the operating needs of the company. Following the delisting of the common shares of the Company from the Philippine Stock Exchange on

November 29, 2018, EDC is in the process of reviewing and updating its CG Manual in accordance with the recently issued SEC Memorandum Circular No. 24, series of 2019 or the Code of Corporate Governance for Public Companies and Registered Issuers.

**b. Code of Conduct and Business Ethics (CCBE) and Code of Conduct and Discipline (CCD)**

EDC's CCBE and CCD were adopted to promote a culture of integrity, transparency, and accountability in the performance of duties and to instill and reinforce the Company's corporate values and discipline among the employees, the Management, and the Board of Directors. These policies also provide guidance on managing business relationships in all aspects of the Company's operations, including confidentiality of information, use of company property or resources, and conflict of interest.

**c. Policies on Conflict of Interest, Protected Disclosures, Giving and Receiving of Corporate Gifts, and Fraud**

These policies cover a wide array of topics ranging from matters involving work performance, dealings with customers, suppliers, creditors, and government regulators, handling corporate assets, records and information, avoidance of conflict of interest and corrupt practices, fraud identification and

reporting, and the encouragement and protection of whistleblowers. These corporate documents provide the limits and guidelines that employees, Management, and the Board of Directors must consider in their interactions with stakeholders to operate and achieve the Company's objectives.

**d. Related Party Transactions Policy (RPT Policy)**

The RPT Policy provides a framework governing the review of the Company's RPTs. EDC has constituted an RPT Board Committee (RPT Board), which is chaired by an Independent Director, with Non-Executive Directors holding more than majority of the committee membership and all EDC Independent Directors sitting as members of the RPT Committee. The RPT Board is tasked to oversee and implement the Company's RPT Policy to ensure the integrity and transparency of RPTs.

EDC also has an RPT Management Review Panel (RPT Management Panel) that assists the RPT Board in the review of RPTs of the Company.

**e. Enterprise Risk Management Manual**

The Enterprise Risk Management Manual lays down the Company's risk management framework that enables EDC to better address different risks and ensures that its business objectives are attained with the highest level of efficiency. EDC's Risk Management

Committee, composed of Non-Executive Directors, oversees the implementation of its Enterprise Risk Management Manual.

In 2018, the following policies were approved and issued:

- Anti-Money Laundering and Countering Financial Terrorism; and
- Responsible Asset Protection.

No new policy was issued by EDC's Risk Management Committee in 2019.

**III. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR PUBLIC COMPANIES AND REGISTERED ISSUERS**

EDC's corporate governance culture emanates from the Board of Directors, supported by the Audit and Governance Committee, the Company's Vice-President and Compliance Officer, and the Corporate Governance Office and the Legal Services Division of the Company.

The Company's Vice-President and Compliance Officer for the SEC, and concurrent Chief Financial Officer and Treasurer, Mr. Erwin O. Avante, spearheads all activities related to promoting a culture of good governance within the Company, and monitoring and

ensuring compliance by EDC's directors, Management, and employees with corporate governance laws, rules, and regulations. He is assisted by the Corporate Governance Office and the Legal Services Division of the Company, which oversee and monitor corporate governance compliance by EDC. The Company's Audit and Governance Committee, as part of its functions and responsibilities, leads, reviews, and oversees the Company's corporate governance practices and policies. Finally, EDC's Board of Directors decides on corporate matters and strategies, mindful of its corporate governance responsibilities under the Company's CG Manual.

In 2019, EDC complied with its CG Manual for which an annual Certification of Compliance has been issued by its Vice-President and Compliance Officer.

#### A. RIGHTS OF STOCKHOLDERS

EDC continues to take the following measures to protect the rights of every stockholder:

##### 1. Basic Stockholder Rights

EDC's stockholders, whether of common or preferred shares, or with a majority or minor stake, or who may be an individual or an institutional investor, are equitably provided with the following basic stockholders' rights recognized in the Revised

Corporation Code, among others: voting rights, pre-emptive rights, appraisal rights, right to inspect corporate books and records, right to information, right to receive dividends, right to participate and be adequately informed on decisions about fundamental corporate acts.

The Board of Directors continues to give its full support for programs and activities promoting the exercise of stockholders' voting rights, through the early release of the Notice and Agenda for the stockholders' meetings containing an explanation of the items to be discussed, the reiteration during stockholders meeting of the voting procedure, and the disclosure to the stockholders of specific acts approved by the Board.

To protect the rights of the Company's minority stockholders, the Board makes sure that appropriate safeguards are in place when deciding fundamental corporate actions, and that Independent Directors actively participate in the deliberations of the Board of Directors and the Board Committees.

##### 2. Right to be Notified of, and to Participate in Decisions Concerning Fundamental Corporate Changes

EDC encourages its stockholders' personal attendance to annual and special stockholders' meetings to ensure their effective and active participation therein and to help them arrive at a well-informed decision on the proposed fundamental changes in the Company, which may include amendments in the Company's Articles of Incorporation and By-Laws, increase in the authorized capital stock, or transfer of all, or substantially all, of the Company's assets. If individual stockholders or authorized representatives of institutional stockholders cannot attend such meetings, these stockholders are informed ahead of time of their right to appoint a proxy.

In addition to the stockholders' right to be informed on corporate changes, EDC also ensures that all available measures are taken so that meeting notices and relevant company information reach its stockholders in the most efficient, convenient, and timely manner.

Outside of the stockholders' meetings, EDC keeps its investors, stockholders, and stakeholders

informed, through disclosures and updates posted in the Company's website (<http://www.energy.com.ph>). For 2019, the Company made a total of 29 structured and unstructured disclosures.

Lastly, in addition to the ASM and its updates and disclosures, the Company placed appropriate mechanisms which allow its stockholders, other stakeholders, and the public at large to participate and give their feedback and complaints. These feedback mechanisms include the Whistleblower Hotline, the EDC website ([www.energy.com.ph](http://www.energy.com.ph)), the contact information of EDC's Investor Relations Office, and the contact information for the Data Protection Officer.

##### 3. Right to Elect Directors

In electing the members of its Board of Directors, EDC stockholders may vote such number of their voting shares for as many persons as there are directors to be elected or to cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of their voting shares, or to distribute them on the same principle among as many candidates as they think fit. The one share, one vote rule applies.

#### 4. Right to Dividends (Dividends Policy)

EDC's Board of Directors is authorized to declare dividends as long as EDC has unrestricted retained earnings in accordance with Section 42 of the Revised Corporation Code.

In the case of cash dividends, holders of common shares are entitled to receive annual cash dividends of at least 30% of the prior year's attributable recurring net income based on the recommendation of the Board of Directors, without need of stockholders' approval. Such recommendations for cash dividend declaration will take into consideration factors such as current and prospective debt service requirements and loan covenants, the implementation of business plans, operating expenses, budget, funding for new investments, as well as appropriate reserves and working capital, among others.

In the case of stock dividends, Board and stockholders' approval are required in accordance with existing laws. Stockholders representing at least two-thirds of EDC's outstanding capital stock must approve the stock dividend declaration.

#### 5. Policy on Mergers, Acquisitions, and/or Takeovers

Before entering into extraordinary transactions, such as mergers, acquisitions, and/or takeovers, the Company conducts above-adequate due diligence and review of such extraordinary transactions and the parties potentially involved in it, by securing, among others, the services of expert third-party firms and consultants to evaluate the fairness of the transaction price and its terms and conditions, and to ensure the viability of such transaction to EDC in the long-term.

EDC also recognizes the rights of its stockholders to participate in the approval of any merger or consolidation in accordance with Section 77 of the Revised Corporation Code, as well as related party transactions requiring their approval as provided in the Revised Corporation Code.

Where the matter involves a related party, the Company complies with its RPT Policy and exercises greater care and transparency in ensuring reasonable, fair, and arm's length transaction price, terms and conditions that are compliant with pertinent laws, rules, and regulations, and that the transactions inure to the benefit and best interest of the Company and its stockholders as a whole, given relevant

circumstances. Material RPTs are disclosed and reviewed by the Company's Independent Directors, and approved in accordance with the RPT Policy.

Disclosures are made available by the Company frequently to ensure that full transparency is afforded the public.

#### B. EQUITABLE TREATMENT OF STOCKHOLDERS

EDC ensures that all stockholders, whether of common or preferred shares, or with a majority or minor stake, or who may be an individual or an institutional investor, are treated fairly and equitably and can exercise their rights without discrimination or undue restriction.

To promote equality among stockholders, the EDC Board of Directors has put in place the following policies:

##### 1. The "One Share, One Vote" Rule

EDC adheres to the "One Share, One Vote" rule. EDC stockholders enjoy voting rights recognized in Section 6 of the Revised Corporation Code equivalent to the number of shares held by them.

In acting on fundamental corporate actions under Section 6 of the Revised Corporation Code, EDC stockholders may vote such number of voting

shares held by them to approve or reject such corporate action, i.e. one share, regardless of class, yields one vote. The manner of electing directors is explained under the Rights of Stockholders.

#### 2. Prohibition on Conflict of Interest and Insider Trading

Internal regulations governing conflict of interest, trade secrets, and use of confidential information have been put in place. Details of these regulations are found in EDC's CCBE and its Personnel Manual under the Section "Conflict of Interest Policy".

Transactions with possible conflicts of interest involving employees must be reported to senior management for clearance and/or investigation prior to submission to the President, who may elevate the same to the Board for the latter's disposition, depending on the magnitude of the conflict of interest. For purposes of determining whether a candidate's directorship in another corporation would affect his capacity to serve and perform his duties as a Director, the Nomination and Compensation Committee will investigate, review, dispose and/or recommend to the Board how to dispense with such transactions pursuant to the NCC Charter.

During Board meetings, pursuant to the CG Manual and as a matter of practice and protocol, EDC directors abstain from participating in the board discussion and in voting on matters whenever there is an apparent or real conflict of interest between the director and the Company.

The Company recognizes that material information received by members of the Board, Management, officers and employees carries the risk of abuse of insider information. Through the proper mechanism in its conflict of interest policy, the Company ensures that transactions involving the use of company information are monitored, reviewed, and cleared to protect the interest of all stockholders and to comply with applicable SEC Rules.

### 3. Related Party Transactions

EDC has developed its own Related Party Transactions ("RPT") Policy wherein material RPTs, including those involving its directors, are to be disclosed and reviewed by its Independent Directors, and shall be approved in accordance with the RPT Policy.

The Board of Directors acknowledges that related party transactions may give rise to conflict of interest. To address this, the Board, through the

RPT Board Committee, ensures that material RPTs, including loans and financial assistance to entities that are not wholly-owned subsidiaries, are done under reasonable, fair and arm's length terms in compliance with pertinent laws, rules and regulations, and that said transactions inure to the benefit and best interest of the Company and its stockholders as a whole, given relevant circumstances.

Details on the nature, value, relationship and disclosure of RPTs are found in the Notes to its Audited Financial Statements under RPTs.

### C. ROLE OF STAKEHOLDERS

To ensure that its corporate activities are aligned with the best interest of its stakeholders, EDC continues to implement its policies in dealing with its stakeholders in its CCBE and CCD.

#### 1. EDC's Key Principles in Dealing with its Stakeholders

Briefly, EDC, through its Board, Management, officers, and employees, strictly observes the following key values and principles in dealing with its stakeholders, pursuant to the CCBE and CCD:

##### a. Business Partners (i.e., Customers, Suppliers, Contractors, Creditors, Investors, Government)

- Honor all contractual obligations in accordance with existing laws, rules and policies;
- Ensure fairness and transparency in all procurement activities and business transactions;
- Maintain professional relationships with potential and current suppliers, contractors and clients;
- Maintain the highest standards of service, professionalism, fairness and honesty in dealing with clients, bankers and financial advisors;
- Strictly observe Company policies and laws on conflict of interest;
- Treat business partners and their personnel with professionalism and courtesy and without compromising EDC's integrity;
- Avoid soliciting gifts, accepting bribes, and doing special favors and other acts that might be construed as giving undue advantage; and
- Avoid accepting anything the value of which is manifestly excessive that may impair or be presumed to impair professional judgment.

##### b. Employees

- Provide fair and competitive salaries and benefits to all employees and administer these promptly without regard to position or title;
- Provide equal opportunities for employees'

training and career development;

- Acknowledge, promote, and reward the most qualified based on good performance;
- Acknowledge and respect the right of employees to freedom of association within the parameters of the law, and for as long as such activities will be beneficial to them and to the Company;
- Observe fair, non-discriminatory, and transparent procedures in hiring employees based on qualifications and experience and in accordance with the organizational requirements of the Company;
- Implement a fair and objective employee performance evaluation in order to promote productivity, career growth, and general work improvement; and
- Ensure a safe, healthy, and secure working environment for its employees.

##### c. The Environment and the Community

- Prioritize the environment and protect, conserve, develop and enhance all natural resources in and around every place EDC operates, particularly geothermal reservations enabling the Company to sustain operations and maintain ecological balance;
- Educate relevant stakeholders on environmental and social responsibilities; and ensure that they

have understood, acknowledged and accepted these responsibilities;

- Promote environmental consciousness and protection, in partnership with local and private sectors;
- Respect the customs, traditions, and beliefs of all indigenous peoples where it operates. Encourage them to wholeheartedly take active roles in the community development programs sponsored by the Company;
- Empower residents of host communities toward self-reliance, self-respect and unity by implementing livelihood programs;
- Support local employment, and provide equal opportunity to all qualified individuals in recruitment and other employment practices – regardless of ethnic, religious, or other types of affiliation;
- Promote youth development, through appropriate activities and programs such as practicum, training and apprenticeship program for students and out-of-school youths regardless of their social affiliation; and
- Provide disaster relief operations in time of calamity.

#### D. GOVERNANCE-RELATED POLICIES

Aside from the CCBE, and Conflict of Interest Policy, EDC employees must observe compliance with the following governance-related policies in all aspects of their work in the Company:

##### 1. Fraud Policy

EDC has a corporate fraud policy, which was established to facilitate the development of controls that will aid in the detection and prevention of fraud against the Company and promotion of consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls. The policy defines fraud and enumerates the instances wherein fraud is committed, and designates the office primarily responsible for investigating corporate fraud cases.

In EDC, fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his/her or the Company's injury.

EDC's Internal Audit Department (IAD) is primarily responsible for investigating corporate fraud cases. In the process of investigating corporate fraud cases, the Company, at all times, accord all

individuals concerned with all due process rights and privileges.

##### 2. Whistleblower Policy (Protected Disclosures Policy)

EDC also has a Whistleblower Policy wherein employees, customers, stockholders, and other stakeholders, including the public at large, are encouraged to raise and report serious concerns involving illegal and questionable activities or omissions, unethical behavior, fraud and other malpractices prior to seeking resolution outside the Company without fear of harassment, retaliation, or adverse employment consequence. EDC's Whistleblower Policy provides the procedures for whistleblowing, as well as the rights and responsibilities of whistleblowers under the said policy.

In furtherance of EDC's good governance initiatives and aligned with its Fraud Policy and the Code of Conduct and Discipline, the Company's IAD has assigned hotlines to enable any stakeholder, officer, employee, or any person to report serious concerns of irregularities and wrongdoings.

Complaints should be raised at hotline nos. (+632) 8982-2202 or +63917-5155896. All reports will be

acted upon and treated with strict confidentiality in accordance with the provisions of EDC's Protected Disclosure Policy.

Reports received by Internal Audit will be immediately evaluated and assessed if it qualifies as a protected disclosure. If it qualifies as such, an assurance of no retaliatory action is given to a whistleblower by treating with strict confidentiality his identity, the content of the report and the recipient of the report. IAD will thereafter proceed to investigate the reported incident and observe confidentiality of the proceedings in accordance with the provisions of EDC's Protected Disclosure Policy. The whistleblower enjoys privileged communication as a defense in any action that may be brought against him arising from such disclosure.

##### 3. Code of Conduct and Discipline

EDC's CCD became effective on September 16, 2011 and was last revised in November 2015. This prescribes the norms of conduct and standards of behavior to instill a strong sense of discipline among its Directors, officers and employees to ensure EDC's core values are embraced by them in their work and daily lives. These standards of

behavior serve as guideposts in ensuring that our leadership and employees embrace and live the Company's core values.

#### 4. Guidelines on Giving and Receiving of Corporate Gifts

EDC issued its Guidelines on Giving and Receiving of Corporate Gifts on February 14, 2013, which established the general principles on giving and receiving of gifts by all EDC officers and employees, probationary, regular, and contractual, and its subsidiaries, consistent with its CCD, Conflict of Interest Policy, and other related corporate policies.

The purpose of these Guidelines is to set clear and realistic guidelines on giving and receiving of gifts, incorporating examples of what types of gifts are and are not allowed. The guidelines also help motivate employees to strive for transparent business practices and relationships by keeping gifts and favors to a minimum, if not prohibiting them entirely, and empower employees with freedom and trust to strike the correct balance in their relationships with outside firms, including vendors, consultants, contractors, suppliers, customers, regulators, political leaders, host communities and other business partners, among others.

#### 5. Anti-Sexual Harassment Policy

EDC has an Anti-Sexual Harassment policy, which was signed and made effective on December 7, 2012. This policy prescribes the rules and regulations towards the promotion of a work environment that values human dignity and respect for human rights. It prescribes the administrative process and disciplinary action for sexual harassment cases.

#### 6. Related Party Transactions (RPT) Policy

The Company believes that having an RPT Policy is another step towards strengthening EDC's governance activities as it provides a governance framework towards ensuring the integrity and transparency of related party transactions. It also ensures that proper review and approval of transactions with a related party are undertaken in a manner that conforms with good governance, while facilitating timely contracting for goods and services.

#### E. BOARD RESPONSIBILITIES

The primary responsibility of governing EDC and overseeing the management of its business lies with the EDC Board of Directors.

#### 1. Board Composition and Structure

The 2019 Board of Directors consists of 11 highly qualified and highly experienced professionals with core competencies on business, local and international finance, asset management and energy. On May 9, 2019, Federico R. Lopez, and Richard B. Tantoco, were elected as Executive Directors; Francis Giles B. Puno, Jonathan C. Russell, Joaquin E. Quintos IV, David Andrew Baldwin, Christopher Low Eu Sun, and Nicole Goh Phaik Khim were elected as Non-Executive Directors. Further, Edgar O. Chua, Francisco Ed. Lim, and Manuel I. Ayala were elected as Independent Directors.

The size, balance, and composition of the Board of Directors enable it to fully support its responsibilities to the Company's stockholders. The current Board of Directors has a good mix of business, legal, financial and commercial expertise in various industries, including the power, energy, and finance sectors. Of the current directors, Federico R. Lopez has been Chairman and CEO of EDC from 2010.

The roles and responsibilities of the Board and Board Committees are clearly delineated in the Corporate Governance Manual and Committee Charters, which are available in its website.

The Executive Directors hold directorship positions within the Lopez Group. They do not have directorships in listed companies outside of the Lopez Group.

The Non-Executive Directors do not participate in the day-to-day management of EDC, but bring a strong presence of independent judgment with wide and varied commercial experience in the power and energy industry to the Board and the Board Committees' deliberations.

The Non-Executive Directors devote sufficient time and attention as necessary in order to perform their duties, and do not have concurrent directorships in more than five publicly listed companies in the Philippines.

The Independent Directors maintain independent judgment from Management, and do not involve themselves in business transactions or relationships with the Lopez Group, so as not to compromise their independence. As of December 31, 2019, EDC's Independent Directors are Edgar O. Chua, Francisco Ed. Lim, and Manuel I. Ayala.

The Board now comprises 18% Executive Directors, 55% Non-Executive Directors, and 27% Independent

Directors. The number of Independent Directors is more than the minimum regulatory requirement of at least two, or 20% of the Board, whichever is higher.

## 2. Nomination, Election, and Succession, and Qualifications and Disqualifications of Directors

EDC's By-Laws, Corporate Governance Manual, and the Charter of the Nomination and Compensation Committee (NCC) lay down the procedure for the nomination and election of Executive, Non-Executive, and Independent Directors, and likewise provide the qualifications and disqualifications for directors.

Nominations of candidates by EDC stockholders are submitted in writing to the Board of Directors, through the Corporate Secretary, before the scheduled ASM. The NCC screens and evaluates the nominations in accordance with the standards, criteria, qualifications, disqualifications, and requirements established by law, rules, and regulations and those embodied in EDC's Corporate Governance Manual, the Charter of the NCC, and the By-Laws, all of which are posted in the Corporate Governance pages of EDC's website. In pre-screening and short-listing of nominees, the NCC looks into the complementarity

of skills and experience and encourages diversity, considering factors such as, but not limited to, age, gender, ethnicity, culture, skills, competence, and knowledge.

Upon election, a new Director receives an orientation about the Company and its business, conducted by the Office of the President (OP) and the Risk Management Department (RMD). In addition, new Directors receive corporate governance orientation to remind them of their general and specific duties and responsibilities to EDC's stakeholders, as well as their reporting responsibilities to the SEC and PDEX.

Succession, in the event of vacancy or replacement, of any member of the Board of Directors is provided in EDC's By-Laws. Any vacancy in the Board of Directors, except that caused by removal, shall be filled by a majority vote of the Board of Directors constituting a quorum at a meeting specially called for that purpose, and the Director so elected shall serve for the unexpired term. For any vacancy arising from removal, the stockholders shall fill up such vacancy in the manner provided in Sections 27 and 28 of the Revised Corporation Code.

## 3. Term of Office of Directors

The term of office of the Directors, whether independent, non-executive or executive, is only one year, subject to re-election after the end of their term, as provided in the Company By-Laws.

EDC's Corporate Governance Manual, in compliance with SEC regulations, provides that the maximum cumulative term of nine years, reckoned from 2012, shall be imposed upon Independent Directors. After such period, the Independent Director shall be perpetually barred from re-election as such, but may continue to qualify for nomination and election as a non-Independent Director. As of 2019, none of the Independent Directors have a cumulative tenure of nine years reckoned from 2012.

## 4. Board Diversity Policy

EDC welcomes board diversity as it promotes constructive interaction among the members of the Board. The Board has committed to improving the selection process to ensure a mix of competent Directors whose qualifications can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, regardless of gender, age, disability, race, or political, religious, or cultural affiliations. EDC's

policy on diversity of the Board's structure is clearly defined in the Corporate Governance Manual.

## 5. Chairman and Chief Executive Officer (CEO)

The Chairman of the Board and CEO is Federico R. Lopez. Since EDC's privatization in 2007, he has served as a Director, and beginning 2010, has been elected as the Company's Chairman and CEO.

As Chairman, he presides at all meetings of the Board and performs such other duties as he may be called upon to perform by the Board. He is accountable for the proper processes and direction of the meetings and activities of the Board. He also ensures the optimization of the skills and combined knowledge and experience of the Board in order to achieve operational excellence. Being the lead proponent of EDC's corporate governance policies, he supports efforts to ensure that the Board meets regularly in accordance with the corporate governance policies and practices. He likewise ensures that the Board meets regularly in accordance with an approved annual schedule and performs its duties responsibly. He shall determine the agenda of each meeting in consultation with the President.

As the Chief Executive Officer, he has general supervision over EDC's business, affairs, and properties. He also performs such duties and responsibilities that may be assigned to him by the Board of Directors from time to time. He is accountable to the Board, to EDC's stockholders and to the stakeholders for the proper implementation of projects and other operational requirements.

Although the positions of Chairman and CEO have been held by one person, the role, responsibilities and functions of the Chairman and the CEO are clearly delineated in the By-Laws. Also, to ensure constructive discussion within the Board and encourage independent views in dealing with company issues, the powers and responsibilities of Directors are clearly delineated from the powers and responsibilities of Management, and the Independent Directors are highly competent and actively participate in the discussions. Lastly, to ensure independent views and perspectives, a lead director may be designated among Independent Directors present during meetings whenever the Chairman has clear conflict of interest.

#### 6. Corporate Secretary

Atty. Bernadette Ann V. Policarpio is EDC's duly elected Corporate Secretary beginning October 3, 2017, after serving as Assistant Corporate Secretary since September 7, 2016. She is assisted by the duly elected Assistant Corporate Secretary, Atty. Ana Maria A. Katigbak-Lim. Both have extensive legal experience and training, focusing on corporate and business law practice and litigation. They play a crucial role in assisting the Board during the meetings, in facilitating the dissemination of notices, agenda, board papers and other board materials, and performing such other functions as may be required by the Board.

#### 7. Decisions Requiring Board Approval

The Corporate Governance Manual enumerates several matters requiring Board Approval, such as but not limited to, annual report and financial statements, dividends, policies, budgets, strategy and direction. Other matters requiring Board Approval include decisions involving fundamental corporate acts identified in the Revised Corporation Code, such as but not limited to amendments to the Articles of Incorporation and By-Laws, sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of EDC's properties, incurring, creating or increasing its

bonded indebtedness, increasing or decreasing its capital stock, merger or consolidation, investment of corporate funds in another corporation or business, and dissolution.

EDC's Approvals Manual also identifies several items requiring Board Approval, such as, but not limited to, contracts and purchase orders over PHP500.0 million.

#### 8. Board Meetings

EDC's Corporate Secretary, through the Office of the President, prepares the schedule of EDC's Board meetings, in accordance with the By-Laws, and disseminates it to the members of the Board and key executives so that EDC's Directors can plan accordingly and fit the year's Board meetings into their respective schedules.

EDC's Board meetings are usually scheduled at the beginning of the year to allow the Board to calendar and ensure maximum attendance in EDC Board meetings. For 2019, the dates of the EDC Board Meetings were announced on January 21, 2019.

As reported to the SEC, the Board of Directors of the Company held its 2019 meetings on the following dates:

MEETING DATE	MEETING TYPE
February 26, 2019 (Tuesday)	Regular Board Meeting
April 5, 2019 (Friday)	Regular Board Meeting
May 9, 2019 (Thursday)	Organizational Meeting
July 12, 2019 (Friday)	Regular Board Meeting
September 13, 2019 (Friday)	Regular Board Meeting
December 6, 2019 (Friday)	Regular Board Meeting

During Board meetings, EDC's Directors are expected to prepare for, attend, participate, and to act prudently, in good faith, and in the best interest of EDC and its stockholders. The Board is aptly apprised and has full and unrestricted access to information on EDC's over-all performance, major business issues, new projects, and economic and environmental impact. The Board has direct contact and communication with Management and employees at any time. As a matter of protocol, materials for Board meetings are provided at least five business days before the date of the meeting.

In 2019, the Board conducted a total of six meetings, including its organizational meeting. Details of the Directors' board meeting attendance are set out below:

Participation Conditions are satisfied and there is at least one incumbent Investco Director who is not an Unsuitable Director, one must be an Investco Director.

	NAME	DATE OF ELECTION	NUMBER OF MEETINGS HELD DURING THE YEAR	NUMBER OF MEETINGS ATTENDED	PERCENTAGE
Chairman & CEO	Federico R. Lopez	May 9, 2019	6	6	100%
Director, President & COO	Richard B. Tantoco	May 9, 2019	6	6	100%
Director	Francis Giles B. Puno	May 9, 2019	6	5	83.33%
Director	Jonathan C. Russell	May 9, 2019	6	4	66.67%
Director	Joaquin E. Quintos IV	May 9, 2019	6	6	100%
Director	David Andrew Baldwin	May 9, 2019	6	6	100%
Director	Christopher Low Eu Sun	May 9, 2019	6	6	100%
Director	Nicole Goh Phaik Khim*	May 9, 2019	6	3	50%
Independent Director	Edgar O. Chua	May 9, 2019	6	6	100%
Independent Director	Francisco Ed. Lim	May 9, 2019	6	6	100%
Independent Director	Manuel I. Ayala	May 9, 2019	6	6	100%

\*On leave from April to July 2019.

The minimum quorum requirement for Board decisions under EDC's By-Laws is a majority of the total number of Directors of which (i) for so long as Red Vulcan holds sufficient shares to enable it to appoint at least one director, one must be a Red Vulcan Director; and (ii) for so long as the

Board meetings are recorded and minuted, and all resolutions are documented by the Corporate Secretary. Committee meetings are likewise recorded and minuted, with the resolutions documented by the respective Committee Secretariats.

## 9. Board Committees

To facilitate the monitoring of the Company's performance and to enhance the effectiveness of the Board in discharging its fiduciary duties, six Board-level committees have been constituted, namely: (1) the Audit and Governance Committee, (2) the Nomination and Compensation Committee, (3) the Risk Management Committee, (4) the Corporate Social Responsibility Committee, (5) the Operations Committee, and (6) the Related Party Transactions Committee.

The Audit and Governance Committee (AGC) performs oversight functions in checking the integrity of EDC's financial reporting process, effectiveness and soundness of internal control environment, adequacy of audit functions for both internal and external audits, and compliance with rules, policies, laws, regulations, contracts, and the code of conduct. The AGC also recommends the appointment, re-appointment, and removal of the external auditor. Detailed enumeration of the AGC's responsibilities is found in the Corporate Governance Manual and the AGC Charter.

The Nomination and Compensation Committee (NCC) evaluates the qualifications of all persons nominated to the Board and those recommended

to other positions requiring appointment by the Board. It also established a formal and transparent procedure for developing a policy on executive compensation and fixing the compensation packages of corporate officers and directors. Detailed enumeration of the NCC's responsibilities is provided in the Corporate Governance Manual and the NCC Charter.

The Risk Management Committee (RMC) is a separate Board Committee that assists the EDC Board of Directors in its oversight responsibility over Management's activities in managing risks involving physical, financial, operational, labor, legal, security, environmental, and other risks of the Company.

The Corporate Social Responsibility Committee (CSRC) conducts an annual review of the Company's CSR programs to ensure that these programs comply with applicable laws, conform with international standards and global trends, and are consistent with Company policies, guidelines, and objectives on CSR. It ensures that the CSR program is integrated and applied consistently throughout the organization and identifies and recommends program enhancements that will increase effectiveness and overall improvement

in company performance and image. Detailed enumeration of the CSRC’s responsibilities is provided in EDC’s Corporate Governance Manual and CSRC Charter.

The Operations Committee (OpsCom), as provided in the Corporate Governance Manual and the OpsCom Charter, deliberates, reviews, and recommends all matters that will require Board approval, and such assignments that may be delegated by the Board on policy, organization, personnel, finance, expenditures, budget, fixed assets, procurement, credit, and sales.

The Related Party Transactions (RPT) Committee was created to oversee the effective implementation of EDC’s RPT Policy. It is also tasked to review all material and significant RPTs of the Company to ensure integrity and transparency of such transactions. Details of RPTs entered into by the Company during the year are disclosed in the Company’s Notes to the Financial Statements.

Below are the Committees’ respective membership and attendance record for the year:

COMMITTEE	MEMBERS’ ATTENDANCE IN 2019
Audit and Governance	<b>Four meetings</b> <ul style="list-style-type: none"> <li>• Edgar O. Chua (I) <i>Chairman</i> - 4</li> <li>• Francisco Ed. Lim (I) - 4</li> <li>• Manuel I. Ayala (I) - 4</li> <li>• Francis Giles B. Puno (N) - 2</li> <li>• Jonathan C. Russell (N) - 3</li> <li>• Joaquin E. Quintos IV (N) - 4</li> <li>• David Andrew Baldwin (N) - 4</li> </ul>
Nomination and Compensation	<b>Three meetings</b> <ul style="list-style-type: none"> <li>• Federico R. Lopez (E) <i>Chairman</i> - 3</li> <li>• Francis Giles B. Puno (N) - 3</li> <li>• Manuel I. Ayala (I) - 3</li> <li>• Joaquin E. Quintos IV - 3</li> <li>• David Andrew Baldwin (N) - 3</li> </ul>
Risk Management	<b>Two meetings</b> <ul style="list-style-type: none"> <li>• Francis Giles B. Puno (N) <i>Chairman</i> - 2</li> <li>• Jonathan C. Russell (N) - 1</li> <li>• Joaquin E. Quintos IV (N) - 2</li> <li>• David Andrew Baldwin (N) - 2</li> </ul>
Corporate Social Responsibility	<b>One meeting</b> <ul style="list-style-type: none"> <li>• Federico R. Lopez (E) <i>Chairman</i> - 1</li> <li>• Richard B. Tantoco (E) - 1</li> <li>• Joaquin E. Quintos IV(N) - 1</li> <li>• David Andrew Baldwin (N) - 1</li> <li>• Edgar O. Chua (I) - 0</li> </ul>
Operations	<b>Thirteen meetings</b> <ul style="list-style-type: none"> <li>• Federico R. Lopez (E) - 7</li> <li>• Richard B. Tantoco (E) - 13</li> <li>• Francis Giles B. Puno (N) - 9</li> <li>• Jonathan C. Russell (N) - 10</li> <li>• Joaquin E. Quintos IV(N) - 12</li> <li>• David Andrew Baldwin (N) - 13</li> </ul>
Related Party Transactions	<b>Five meetings</b> <ul style="list-style-type: none"> <li>• Manuel I. Ayala (I) <i>Chairman</i> - 5</li> <li>• Edgar O. Chua (I) - 5</li> <li>• Francis Ed. Lim (I) - 5</li> <li>• Federico R. Lopez (E) - 5</li> <li>• Richard B. Tantoco (E) - 5</li> <li>• Francis Giles B. Puno (N) - 5</li> <li>• Jonathan C. Russell (N) - 5</li> <li>• Joaquin E. Quintos IV(N) - 5</li> <li>• David Andrew Baldwin (N) - 5</li> </ul>

Each Committee has its own Committee Charter, which contains the purpose, the composition, the structures, the reporting process, the delegated authority and specific duties and responsibilities within which the Committee operates. A copy of the Committee Charters are available at the company website.

Members of EDC’s different Board Committees were elected by the Board during the Organizational Board Meeting, following the Annual Stockholders’ Meeting, on May 9, 2019, and any subsequent change in the membership is made upon approval of the Board.

To further enhance the participation and involvement of the Board in the activities of the various committees, Directors who are non-committee members may likewise sit and observe in the Committee meetings. During committee meetings, the observer-directors can comment and make suggestions, but they have no voting right therein.

**F. BOARD ACTIVITIES FOR 2019**

**1. Board Orientation and Training Program**

Upon election to the EDC Board, a new Director receives an orientation about the Company’s business, its geothermal and renewable energy operations, and its organizational and functional structure, among others. In addition to the in-house orientation given by the Company to the new Director, the new Director also receives corporate governance orientation.

Also, 11 directors and 15 corporate officers and executives participated in the corporate governance seminar conducted for 2019 by a duly accredited training provider. The corporate governance seminars provided EDC Directors, officers, and Senior Management an opportunity to learn and integrate corporate governance principles and be provided with useful insights on various current governance issues.

**2. Board Strategic Planning**

To align the activities of the Company with its vision, mission, core values, and goals for the year, the Board of Directors conducted a Board Strategy Meeting last September 13, 2019.

The Board Strategy Meeting provided a venue for the Directors to set strategic directions and guidance. The Directors revisited and affirmed the company's mission and vision, and analyzed the present and future operating environment given the market trends. The Directors likewise assessed major opportunities and risks for the Company.

### 3. Compensation of Directors and Executive Officers

The NCC has the responsibility to review and recommend to the Board the Company's compensation system and remuneration packages for corporate officers and directors.

The levels of honoraria, remuneration or compensation for EDC's directors and executive officers are set at the optimum level to attract and retain the services of qualified and competent directors and officers and in accordance with the Corporate Governance Manual.

A portion of the honoraria, remuneration or compensation of the directors, whether executive, non-executive or independent, may also be structured or be based on corporate and individual performance. In accordance with its By-Laws, the Board shall receive such fees, remuneration,

or compensation for their services pursuant to a resolution of the stockholders.

### G. INTERNAL AUDIT

EDC has a well-established and independent Internal Audit Group, headed by the Chief Audit Executive (CAE), Glenn L. Tee, who is tasked to perform the Internal Audit functions in the Company and to provide reasonable assurance to the Board through the Audit and Governance Committee (AGC) that key organizational and procedural controls are appropriate, adequate, effective, and complied with. The Internal Audit functions encompass an independent and objective evaluation and improvement of the adequacy, propriety, effectiveness, and compliance with EDC's risk management, control and governance processes.

As the working arm of the Audit and Governance Committee, the Internal Audit Group reports functionally to the AGC but reports administratively to the Head of the Corporate Support Functions. As such, internal Audit plans, activities, organizational structure, including the appointment and removal of the CAE, staffing and charter are reviewed and approved by the Audit and Governance Committee. Likewise, Internal Audit has direct access to the AGC

and to all records, personnel, and properties as mandated by the Internal Audit Charter. The results of the work of internal audit are reported to the AGC on a quarterly basis and any such period that may be deemed necessary.

### H. EXTERNAL AUDIT

The Audit and Governance Committee recommends to the Board the appointment of EDC's external auditors, subject to stockholder ratification, as well as reviews and approves the audit fees and non-audit fees, and reviews the required rotation of external auditor partners.

Since 2007, SyCip Gorres Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited, has served as EDC's external auditor. SGV & Co. observes and complies with the required rotation of its audit partners. In 2015, Ms. Jhoanna Feliza C. Go replaced Mr. Ladislao Z. Avila, Jr. as SGV audit partner assigned to EDC.

External auditors play a crucial role in ensuring that EDC's financial statements factually represent accounting records and are treated and presented in accordance with existing accounting standards, i.e., currently the Philippine Financial Reporting Standards.

In auditing EDC for several years, SGV & Co. found no material disagreements on accounting matters or financial disclosure matters.

SGV & Co. representatives, headed by Ms. Jhoanna Feliza C. Go, are also present at EDC's 2019 ASM to respond to auditing matters that may be raised by the stockholders. SGV & Co. was again appointed by the Board and the stockholders as external auditor for 2019.

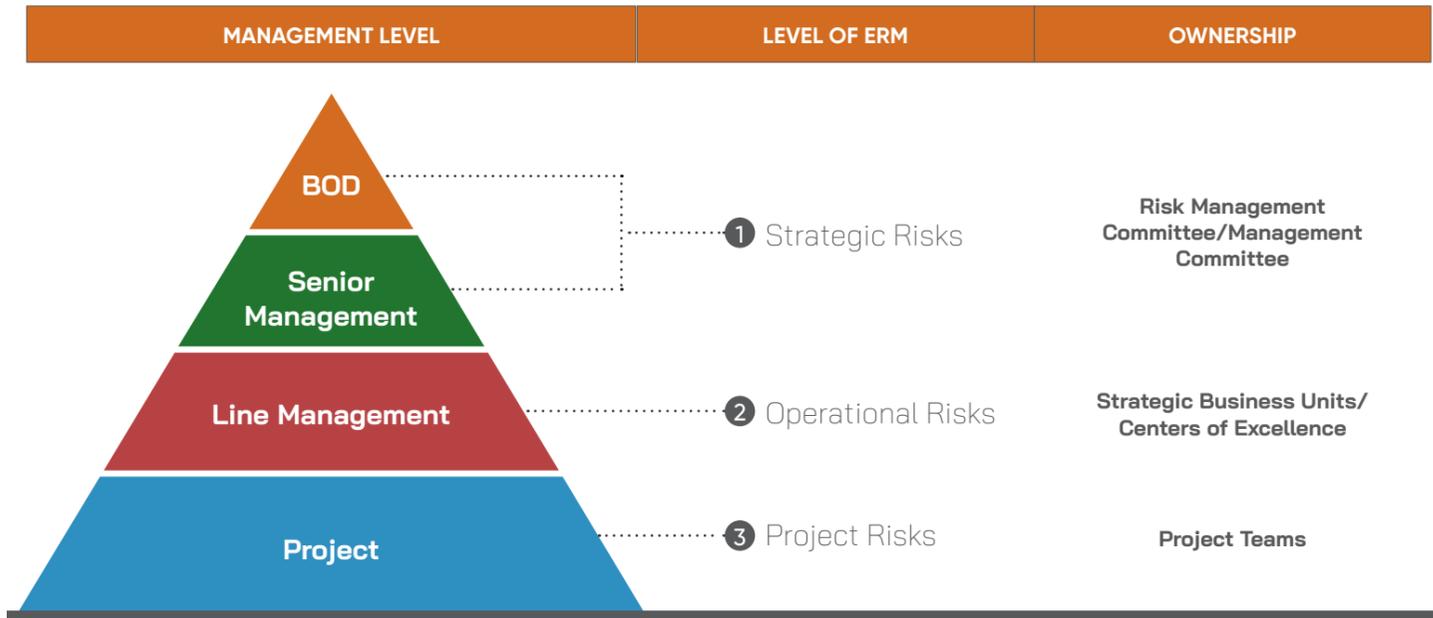
### I. ENTERPRISE RISK MANAGEMENT

#### 1. EDC's Enterprise Risk Management (ERM) System

The Board and the Risk Management Committee are responsible for establishing and reviewing the Company's ERM program, including the review of strategic risks to ensure appropriate controls are in place; review of risk tolerance, financial exposures, and investment guidelines, including the mitigating strategies, insurance, and other risk financing schemes being undertaken; and review of security, safety, and physical loss control measures adopted by the Company to ensure that all risks are adequately covered.

On the other hand, day-to-day responsibility for internal control and risk management lies with Management.

EDC's risk management activities are conducted at the various levels as shown below.



Strategic Risk Reviews are conducted quarterly at the Board level, through the Risk Management Committee, in which selected groups present and discuss their top strategic risks and the corresponding risk treatment plan.

planning and budgeting processes, as part of its strategy execution process. Correspondingly, risk treatment plans are formulated as part of each groups' annual work program and budget and are implemented to properly manage their identified top risks.

Operational Risk Reviews are conducted annually by each group across the organization. This level of risk review is embedded in the Company's strategic

Project Risk Reviews are conducted by project teams as part of the project stage-gate process.

For the Company's Facilities Operations and Maintenance Group, the group conducts Asset Risk Reviews covering the Company's power plant, steamfield, and transmission line assets. In addition, the group also conducts Natural Catastrophe Risk Reviews to identify, assess, and manage the top natural hazard risks to the Company's assets and people.

Process Risk Reviews are also conducted as part of the implementation of the Company's Integrated Management System (IMS). The Process Risk Reviews cover risk identification and evaluation on health, environment, safety, and quality. Correspondingly, risk treatment plans are formulated and implemented to address the identified top health, environment, safety, and quality risks.

To further improve the implementation of the Company's Enterprise Risk Management (ERM) Program, the Corporate Risk Committee (CRC) has been established. The CRC shall assist the Risk Management Committee of the Board and the President in overseeing the management of the Company's strategic risks.

EDC also has an established Business Continuity Management (BCM) system that covers emergency response, crisis management, and business recovery. BCM is implemented across the organization to ensure its resilience. The activities under the BCM system are based on the risks that have been identified during the various risk review exercises.