

Energy Development Corporation (the "Company", "EDC") acknowledges that corporate governance strengthens and stabilizes a company and serves as a partner for dynamic change.

The Company's leadership, its internal and external stakeholders continue its commitment to corporate governance best practices provided in the Corporation Code, governance rules and regulations, Company By-Laws and and the Manual of Corporate Governance.

## **I. CORPORATE GOVERNANCE OVERVIEW**

The EDC Board of Directors undertakes the primary responsibility of governing EDC 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 Strategic Planning Session held last September 17, 2018, the Board reviewed and affirmed EDC's vision and mission, analyzed and assessed the company's business environment and major opportunities, and determined strategies to grow the company despite the evolving challenges facing the energy industry.

Discussions within various Board Committees also served as venues for independent check on Management's implementation of business objectives and strategies, and for group synergy and constructive deliberations on business strategies, insights and direction. In 2018, 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 which 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 which contribute to EDC's corporate governance system, such as the policies on Conflict of Interest, Protected Disclosures ("Whistleblower"), Giving and Receiving of Corporate Gifts, Fraud, and Related Party Transactions ("RPT Policy"), as well as the manual on Enterprise Risk Management.

Below are the short descriptions of EDC's CG Policies and Initiatives:

### ***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 by which the Board of Directors and the Officers strive 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.

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 has been reviewed and updated to align with the pertinent provisions in 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.

***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 among the employees, the Management and the Board of Directors the Company's corporate values and discipline. These also promote integrity and provide guidance on business relationships in all aspects of the Company's operations, including confidentiality of information, use of company property/resources and conflict of interest.

***C. Policies on Conflict of Interest, Protected Disclosures ("Whistleblower"), 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 in which the employees, Management and Board interact with stakeholders to operate and achieve the Company's objectives.

***D. The Related Party Transactions Policy ("RPT Policy")***

The RPT Policy provides a framework governing the review of the Company's related party transactions (RPTs). EDC has constituted a Related Party Transactions 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 Committee, and a Related Party Transaction Management Review Panel ("RPT Management Panel"). The RPT Board is tasked to oversee and implement the Company's RPT Policy to ensure the integrity and transparency of RPTs. The RPT Management Panel assists the RPT Board in the review of RPTs of the Company.

***E. Enterprise Risk Management Manual***

Lastly, the manual on **Enterprise Risk Management** 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
- Responsible Asset Protection

### **III. COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR PUBLICLY-LISTED COMPANIES**

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.

The Company's Vice-President and Compliance Officer for 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 Directors, Management and employees with corporate governance laws, rules, regulations. He is assisted by the Corporate Governance Office, which was set-up to 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, the EDC Board of Directors decides on corporate matters and strategies, mindful of their corporate governance responsibilities under the Company's CG Manual.

In 2018, EDC has complied with its CG Manual, containing relevant provisions of the Code of Corporate Governance for Publicly-Listed Companies, for which an annual Certification of Compliance has been issued by its Vice-President and Compliance Officer.

### **IV. THE 2018 CG ACTIVITIES OF THE ENERGY DEVELOPMENT CORPORATION**

For the year ending December 31, 2018, below were the Corporate Governance activities of EDC:

#### ***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 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. It also continues to support programs for the protection of stockholders' right to take collective action

through appropriate mechanisms for the resolution of issues and concerns.

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, company 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 under the most efficient, convenient and timely manner.

EDC held one (1) stockholders meeting in 2018: the Annual Stockholders Meeting (ASM) on May 8, 2018.

EDC released the Notice of ASM on February 28, 2018. Thereafter, the Definitive Information Statement (SEC Form 20-IS) containing the Notice of Meeting and the Agenda, the proxy forms and all information necessary for stockholders to make informed decisions, was filed with the SEC and PSE and distributed to stockholders on March 28, 2018, or forty-one (41) days before the ASM on May 8, 2018. Electronic copies of the Information Statement were distributed to the stockholders in compact disc formats by regular mail, via postings in EDC's website and by disclosures in the Philippine Stock Exchange's Electronic Disclosure Generation Technology (PSE EDGE). Stockholders were also advised that hard copies of the Information Statement could be requested from the Office of the Corporate Secretary and the Investor Relations Office.

The Company encourages stockholder's participation in major Company decisions by holding the ASM at a convenient place accessible to the public. The Company held its ASM at the One Rockwell East Tower Function Room, Rockwell Drive, Rockwell Center, Makati City, Philippines.

Prior to the ASM, all EDC stockholders, including non-controlling stockholders, were given an opportunity to nominate candidates to the Board. It is of note that the Company's independent directors were nominated by non-controlling individual stockholders.

EDC stockholders were given an opportunity to raise questions to the Board and Management during the stockholders' meetings. Questions and answers were recorded

and included in the ASM Minutes and in the Corporate Governance section posted in EDC's website (<http://www.energy.com.ph>). Details of the meeting are further discussed in this report under "Equitable Treatment of Stockholders".

The outcome of the Annual Stockholders' Meetings, with details of the approved agenda items and the approving, dissenting and abstaining votes, as well as the outcome of the Organizational Meeting of the Board of Directors with details of the approved agenda items, were immediately disclosed to the public via SEC submissions, PSE EDGE Disclosures and the Company website.

Outside of the stockholders' meetings, EDC engaged and kept its investors, stockholders and stakeholders informed, through disclosures and activities led by its Investor Relations Office. For the year, the Investor Relations Office activities include the following:

- Ten (10) 1-on-1 Meetings and Six (6) Conference Calls
- Joined First Gen in attending Four (4) Investor Conferences and Met up with Thirty Nine (39) Participants
- Ninety Two (92) Structured and Unstructured Disclosures
- Successful conclusion of the Voluntary Delisting Tender Offer for all of its common shares that are held by the public. A total of 2,009,107,731 common shares (out of the 2,040,006,713 public common shares) were accepted and purchased by the Company.
- Secured PSE approval for EDC's petition for voluntary delisting effective November 29, 2018.

Lastly, in addition to the ASM and the regular activities of its Investor Relations (IR) Office, the Company placed appropriate mechanisms which allow its stockholders, its 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 newly-added **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 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 his voting shares, or he may distribute them on the same principle among as many candidates as he shall 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 43 of the 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 recommendation 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.

In 2018, EDC did not declare dividends in view of the company's need to set aside funds for its three (3) earliest maturing loans. Thus, on December 5, 2018, the EDC's Board of Directors approved the appropriation of unrestricted earnings in the total amount of Php 20.35 Billion.

Below is a table showing the dividend declarations and pay-outs made by EDC in the last three (3) years:

<b>ENERGY DEVELOPMENT CORPORATION</b>				
<b>DIVIDEND DECLARATIONS AND PAY-OUTS 2016-2018</b>				
<b>Type</b>	<b>Value</b>	<b>Record Date</b>	<b>Date Payable</b>	<b>Reference</b>
<i>No cash dividend declaration in 2018</i>				
Cash dividend on Common shares, P0.14/sh	2,623,181,400	20-Mar-17	12-Apr-17	PSE Disclosure dated February 28, 2017
Cash dividend on Preferred shares, P0.0008/sh	7,500,000	20-Mar-17	12-Apr-17	PSE Disclosure dated February 28, 2017
Special Cash dividend on Common shares, P0.12/sh	2,248,441,200	22-Sept-16	12-Oct-16	PSE Disclosure dated September 7, 2016
Cash dividend on Common shares, P0.14/sh	2,623,656,000	23-Mar-16	12-Apr-16	PSE Disclosure dated March 9, 2016
Cash dividend on Preferred shares, P0.0008/sh	7,500,000	23-Mar-16	12-Apr-16	PSE Disclosure dated March 9, 2016

##### **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. When EDC acquired 60% of First Gen Hydro Power Corporation (FGHPC) in 2008, the Company created a committee composed exclusively of its Independent Directors to oversee the transaction on behalf of EDC's management, supported by an independent financial adviser to render the fairness opinion, and a sole financial advisor. Recently, when EDC received a tender offer from Philippines Renewable Energy Holdings Corporation (PREHC) on August 3, 2017, the Independent Directors engaged the services of another expert third-party firm to opine on the reasonableness of the methodologies and approaches used by the experts engaged by the offeror in determining the fair value of the Company.

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 Corporation Code, as well as related party transactions requiring their approval as provided in the Corporation Code.

Where the matter involves a related party, the Company complies with its Related Party Transactions 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 to the Exchange and the investing public 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 Corporation Code equivalent to the number of shares held by them.

In acting on fundamental corporate actions under Section 6 of the Corporation Code, EDC stockholders may vote such number of 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 matters involving a Director or Officer, 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 also continues to observe strict compliance with PSE's Trading Rules and Restrictions, particularly on transparency and fairness of transactions. It 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 SEC and PSE Rules.

To ensure the fairness and transparency of trading activities involving company shares, Directors, Officers, executives and company insiders, are required to comply with the trading blackout notices issued by the Investor Relations Office whenever they come to know of price-sensitive material information, such as the approval of the financial statements, until the trading blackout is expressly lifted. Whenever Directors and Officers trade in company shares, they are required to report to the SEC and to EDC their dealings in company shares via SEC Form 23-A or 23-B. EDC, in turn, makes the corresponding disclosures to the public via PSE EDGE and the company website. A table showing the levels of direct and indirect shareholdings in EDC shares by the Company's Directors and Officers shares are be found in the Company's SEC Form 17-A (Annual Report) .

### **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 its 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 Related Party Transactions.

### **4. *2018 Stockholders' Meeting.***

EDC held its Annual Stockholders Meeting (ASM) on May 8, 2018. Details on equitable treatment of EDC stockholders during 2018 ASM are as follows:

- a. The Company's stockholders participated either in person or through their authorized representatives. Only stockholders of record as of March 15, 2018 were entitled to notice of, and vote at, the meeting. Stockholders who cannot personally attend the meeting designated their authorized representatives by submitting a duly-executed

proxy instrument to the Office of the Corporate Secretary on or before April 28, 2018.

- b. Meeting notices were issued in English since it is an official language in the Philippines, and also for the benefit of foreign stockholders. In the 2018 ASM, the Notice of the Meeting was first disclosed via the PSE EDGE on February 28, 2018. To provide stockholders enough time to examine the information needed to arrive at an informed decision, it was again issued with the Meeting Agenda, as part of the Definitive Information Statement (SEC Form 20-IS) filed with the SEC, which was distributed by the Company on March 28, 2018.
- c. In the SEC Form 20-IS, the Company included the Notice and detailed Agenda, together with a brief explanation and rationale of each Agenda item to guide its stockholders and to provide them with the necessary information they can use to arrive at a well-informed decision. It also provided other relevant and adequate information for the stockholders' consideration, including -
  - Nomination and Election of EDC Directors. Basic information on the nominees for Directors, such as the name, type of directorship, education, experience, positions held in other businesses, date of first election, shareholding in EDC and such other information were provided to stockholders in SEC Form 20-IS.
  - Remuneration Information on the amount and form of compensation received by the directors and key officers of EDC were provided in the SEC Form 20-IS.
  - Appointment of External Auditors. SGV & Co, with Ms. Jhoanna Feliza C. Go as the audit partner-in-charge, upon the recommendation of the Audit and Governance Committee, were identified as EDC's external auditor for 2018-2019.
  - Dividends. Information on the dividend policy and the dividend amount declared to be paid and the dividends actually paid in the previous years were likewise provided.
- d. No new item was included in the agenda on the day of the meeting nor was there any amendment made on material information in SEC Form 20-IS without informing the stockholders in advance.
- e. A proxy form with instructions on how to appoint a proxy to stockholders' meeting, was enclosed in the Notice and the SEC Form 20-IS to enable representation for the stockholders who cannot personally attend the meeting. Stockholders can also download proxy forms from EDC's website. For those represented by a proxy, their votes were submitted and received not later than April 28, 2018. The proxy was required to be duly signed and accomplished by the stockholder and submitted within the deadline, after which, the company validated and accepted the same, without need for notarization.
- f. The ASM was held on May 8, 2018 at 9:00 A.M. at the One Rockwell East Tower Function Room, Rockwell Drive, Rockwell Center, Makati City, Philippines. The

venue was accessible and capable of accommodating all stockholders. Stockholders owning at least 26,716,474,463 shares representing at least 95.04% of the outstanding capital stock, attended the 2018 ASM, either in person or by proxy.

- g. EDC's Chairman of the Board/CEO, its President/COO, its Executive and Non-executive Directors and Independent Directors, its corporate officers and executive management, including the Investor Relations Officer, as well as the external auditors, attended the meeting to answer all aspects of stockholders' questions. With nine (9) members of its Board of Directors present in the Meeting, the Chairpersons of the Audit and Governance Committee, the Nomination and Compensation Committee, the Related Party Transactions Committee, the Risk Management Committee, and the CSR Committee were properly represented thereat.
- h. At the start of the ASM, the participants were briefed about the security precautions and emergency contingency plans that were put in place. The meeting was conducted in English to equally preserve all stockholders' interest and ease communication needs for foreign stockholders.
- i. The Company followed the agenda items as stated in the Notice and conducted the meeting in accordance with existing laws and regulations.
- j. The Corporate Secretary explained the voting procedures to be observed during the meeting, which was included in the Information Statement (SEC Form 20-IS) that was distributed to all stockholders prior to the meeting.
- k. The Chairman encouraged the stockholders to pose their queries or to express their opinions or recommendations and the management addressed and answered all the queries respectfully during the Meeting. The questions asked and the issues raised as well the Company's responses were duly recorded in the Minutes of the Meeting.
- l. EDC stockholders voted on each agenda item. Initial voting results were announced during the ASM, and approved items were reported to the PSE and SEC the next day. The Securities Transfer Services Inc. tabulated the votes for each agenda item.

The table below shows the voting results in the Annual Stockholders' Meeting of the Company:

AGENDA ITEMS	ACTION			
Item 1. Call to Order	No action necessary.			
Item 2. Proof of Notice and Certification of Quorum	No action necessary.			
	FOR	%	AGAINST	ABSTAIN
Item 3. Approval of the Minutes of the Previous Stockholders' Meeting	26,715,335,961	95.03%	0	567,921
Item 4. Approval of the Management Report and Audited Financial Statements for the year ended December 31, 2017	26,699,239,961	94.97%	0	16,663,921
Item 4. Ratification of Acts of Management	26,698,219,049	94.97%	0	17,684,833
Item 5. Election of Directors	<b>Votes per nominee shown below</b>			
For Regular Director:	<b>Votes per nominee shown below</b>			
Federico R. Lopez	26,634,469,521	94.74%	75,747,761	5,686,600
Richard B. Tantoco	26,338,702,328	93.69%	377,201,554	0
Francis Giles B. Puno	26,290,626,564	93.52%	425,277,318	0
Jonathan C. Russell	26,290,626,564	93.52%	425,277,318	0
Joaquin E. Quintos IV	26,290,626,564	93.52%	425,277,318	0
David Simon Luboff	26,326,567,060	93.65%	389,336,822	0
David Andrew Baldwin	26,290,884,257	93.52%	425,019,625	0
Christopher Eu Sun Low	26,326,824,753	93.65%	389,079,129	0
For Independent Director:	<b>Votes per nominee shown below</b>			
Manuel I. Ayala	26,706,748,382	95.00%	9,155,500	0
Edgar O. Chua	26,706,748,382	95.00%	9,155,500	0
Francisco Ed. Lim	26,706,748,382	95.00%	9,155,500	0
Item 6. Approval of appointment of SGV & Co. as the Company's external auditor	26,708,584,283	95.01%	7,249,800	69,799
Item 7 Adjournment	26,697,213,569	94.97%	18,122,392	567,921

\* Percentage is based on total outstanding voting shares of EDC at 28,112,010,000

### 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 Code of Conduct and Business Ethics (CCBE) and Code of Conduct and Discipline (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;
- 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. 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.

c. The Employees

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

## 2. *EDC Activities Promoting Stakeholders' Interests*

In promoting and protecting its stakeholders' interests, the Company implemented the following programs and activities:

### a. Business Partners

#### Investors

EDC values its investors and stockholders and constantly updates them with current and accurate reports on the company's plans and performance for the year. Through meetings, conferences, and conference calls with individual and institutional investors and securities analysts, the Company gives its stockholders and potential investors an opportunity to learn about its business, strategic direction and priorities.

For 2018, the following are EDC's investor relations activities:

- Ten (10) 1-on-1 Meetings and Six (6) Conference Calls;
- Joined First Gen in attending Four (4) Investor Conferences and Met up with Thirty Nine (39) Participants;
- Ninety Two (92) Structured and Unstructured Disclosures;
- Successful conclusion of the Voluntary Delisting Tender Offer for all of its common shares that are held by the public. A total of 2,009,107,731 common shares (out of the 2,040,006,713 public common shares) were accepted and purchased by the Company; and
- Secured PSE approval of EDC's petition for voluntary delisting effective November 29, 2018.

The Disclosures web pages (<https://www.energy.com.ph/investors-relations/disclosures/>) in the Company website made available to the public the presentations used for the analysts/investors' briefings of the quarterly financial and operations results. In addition to the ninety-two (92) structured and unstructured reports and disclosures, one hundred fifteen (115) news articles on various activities were posted in the company website.

#### Customers

EDC sees the crucial role of its customers in the long-term sustainability of its

operations. Thus, customers' welfare is given special attention by constant engagement and communication, offering fair prices and providing safe and prompt services in response to their needs.

For several years, EDC, in partnership with First Gen Corporation, has taken the initiative of having activities for the enhancement of its customer relations, such as holding Customer Assemblies (CAs) and Customer Appreciation Night (CAN) learning session and recognition/fellowship night.

In 2018, EDC held two (2) activities: the Customer Assembly in Puerto Princesa, Palawan and a Customer Appreciation Night at Manila Marriott. During the CAN, EDC acknowledged outstanding customers for 2018, with citations such as “Customer of the Year” (one each for Electric Cooperative and Contestable Customer), “Prompt Payer Award”, and “Synergetic Customer”. Fourteen (14) customers were also cited with “Loyalty Award”.

For the 2018 CAs, 26 companies, totaling to 98 delegates, participated. The delegates represented 23 Electric Cooperatives/Distribution Utilities, and 3 selected Industrial Customers. For the CAN learning session, 54 companies, totaling to 144 delegates, participated. Lastly, during the recognition night, 69 companies, totaling to 185 delegates, were represented.

#### Suppliers and Contractors

The Company recognizes the vital role of suppliers and contractors in EDC's continuing operations, thus, they are valued and treated fairly and with respect on the basis of fair competition, good cooperation and mutual support.

In the selection of its suppliers and contractors, EDC is committed to the pursuit of business excellence and the adoption of process excellence in procurement and supply chain management. The Company requires its suppliers and contractors to undergo an evaluation and accreditation process to ensure that only those companies duly-registered with appropriate regulatory bodies, and compliant with government rules and regulations, as well as those which are financially and technically capable of completing the projects, are awarded with contracts.

The Company conducts a financial risk evaluation to determine a supplier's capacity to meet financial commitments and to deliver goods/services based on credible financial statements. A legal evaluation is also conducted to ascertain a supplier's statutory compliance and legitimacy as an entity fit for engagement after an evaluation of required documents. Technical evaluation to ascertain the supplier's qualifications vis-a-vis actual requirements for procurement is also conducted.

As part of the accreditation process, the Company checks suppliers' and contractors' compliance with its Conflict of Interest Policy. It also adopts relevant contract terms that guarantee the supplier's agreement to abide by laws, rules, regulations and EDC-established standards pertaining to the environment, health and safety, and other applicable laws. A competitive and transparent bidding process in selecting suppliers and contractors is also implemented and continuously updated to ensure that the

database of accredited suppliers and contractors remain current. It also evaluates contractor and suppliers' actual performance to ensure their adherence to agreed specifications under the contracts.

The Company also recognizes the importance of giving due attention to the safety and health of the Contractors' employees at the workplace to ensure safe performance of contracted work. Thus, applicant contractors also undergo a Health, Environment and Safety (HES) evaluation by looking at their respective HES culture, Safety Management System, regulatory compliance and safety performance and are required to submit a Safety Plan specific to the project.

#### Creditors

EDC respects the rights of its creditors and complies with its contractual obligations, including loan agreements. It conducts annual meetings with its creditors to keep them updated on the status of the Company's operations and the latest industry trends and news.

The Company also provides prompt and accurate reports of its financial standing to allow its creditors to continuously evaluate and monitor the company's performance and credit standing. The EDC Enterprise Risk Management Policy and Manual is also periodically reviewed in order to improve understanding of the risks that the Company may face towards achieving its goals and targets.

#### b. *The Government and the Republic of the Philippines*

EDC promotes national development through the utilization and development of indigenous renewable energy resources to produce clean power with low carbon footprint and by being in the forefront of geothermal and wind power resource development.

The Company contributes to research and development on clean and renewable energy by cooperating with and supporting the Philippine Government in the furtherance of policies expressed in relevant laws and regulations, including compliance with requirements enforced thereunder.

EDC also keeps itself abreast with and closely monitors new and upcoming laws, rules and regulations affecting its business. The Company actively participates in public hearings and consultative technical proceedings, through the submission of position papers and attendance in such consultations. In the proper fora participated in by government agencies and/or other stakeholders, EDC conducts briefings on its operations, plans or expert views, as may be relevant.

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

EDC, a strong advocate for sustainable development, continuously creates long-term economic value to the country by providing clean and renewable energy while also ensuring that the business is in harmony with the environment and community where it operates.

With the constant effort and initiative to improve its value chain, EDC considers the significant role of a balanced and mutual healthy relationship between the business and the society. Thus, EDC implements comprehensive watershed management and community partnerships programs to ensure that both the environment and the society are given high importance while growing the business.

#### Watershed Management

As EDC delivers clean energy to the public, it continuously manages the watersheds wherein its facilities operate by performing programs on biodiversity conservation and management, upland community management, forest restoration, forest protection, ecotourism and regulatory compliance (BUFFER).

#### Biodiversity Conservation and Management

Across the five geothermal project sites of EDC, regular diversity monitoring of flora, fauna and freshwater ecosystems is being performed. As EDC geothermal project sites were recognized as Key Biodiversity Areas in the country, which are globally significant due to having the capacity to support viable populations of certain important species that inhabit the area, the monitoring serves as a means to further protect the diverse wildlife found in the locality. Since the program was launched in 2010, EDC has now recorded the presence of almost 800 species of fauna (combined numbers of birds, bats, small to medium-sized mammals, amphibians and reptiles), more than 1,300 species of plants and around 140 families of freshwater macroinvertebrates within the project sites. Included in this are some threatened species such the Golden-crowned Flying Fox (*Acerodon jubatus*), Philippine Eagle (*Pithecophaga jefferyi*), and Philippine Mahogany and Ironwood groups like the *Dipterocarpus* and *Xanthostemon* species among others.

#### Upland Community Management

Guided by a strategic framework that focuses on social entrepreneurship, EDC enhances the capacity of the upland community members as organized farmer/fisherfolk associations through different trainings and exposures both on the technical know-how and the soft skills necessary for successful income-generating projects. In complement to the capacity-building activities, the associations are assisted to explore profitable and valuable opportunities that could help in improving the socio-economic conditions of the concerned upland communities. To highlight as an achievement this year is the story of the Baslay Farmers Association (BFA) of Negros Island, which started as a group of “kaingineros” (people who practice unsustainable and illegal slash-and-burn activities) who turned to be green warriors as coffee farmers. The association was given a Lopez Achievement Award (LAA) under Public Responsibility Category for the success in shifting the community members’ perspective in forest utilization as well as in establishing a coffee business that the

market now enjoys. (<http://lopezlink.ph/employee-news/meet-the-executive/27-employee-news/8276-innovators-take-the-spotlight-at-laa-2018.html>)

### Forest Restoration

With the objective of sustaining the geothermal recharge, increasing the carbon stock for climate change mitigation, restoring biodiversity and providing alternative livelihood to communities, BINHI Greening Legacy was launched by EDC in 2008.

As this flagship program reaches its 10th year in 2018, EDC has already achieved about 95% of the commitment to reforest 10,000 hectares of denuded lands using indigenous forest tree species. Moreover, as the BINHI Program is also successful in rescuing the priority 96 threatened species of the Philippines as documented in the BINHI Book launched in 2017, these species are now being propagated in the established Vegetative Material Reproduction (VMR) Nurseries in Antipolo City, Northern Negros and Southern Negros. Such unique initiative by a private company further moves to lower the threatened status of some of the found species by collaborating with the Department of Environment and Natural Resources (DENR).

As an achievement this year, the downgrading of the threatened status of five species has been successful as the assessments performed by EDC have already been published by the International Union for Conservation of Nature (IUCN) while five other species are also now approved at the DENR level. (<https://www.iucnredlist.org/search/list?query=Energy%20development%20corporation&searchType=species>)

Through widened collaboration efforts, EDC has partnered with 20 different institutions and established 15 new tree parks across the country. Aside from these are two new arboretums in LGP and MAGP, and a rehabilitation project with the DENR to formally establish the Boracay Wetland Conservation Park wherein the Company adopted 7.79 hectares of the area for replanting, conservation and development for sustainable ecotourism. (<https://www.energy.com.ph/edc-adopts-boracay-wetland-to-support-denr-island-rehabilitation/>)

### Forest Protection

In partnership with different authorities such the DENR, Armed Forces of the Philippines (AFP), Philippine National Police (PNP) and Local Government Units (LGU), the Company ensures that forest protection and law enforcement is properly performed within the forestlands covered by the geothermal reservations. Thus, this year, EDC and its partners have performed more than 700 foot patrols, including 324 LAWIN activities, that cover the forestlands within the project sites.

LAWIN is a forest and biodiversity protection system developed by USAID in collaboration with DENR to facilitate the protection of forests through the conduct of purpose-driven patrols involving biodiversity and threat monitoring through open-source technology that maximizes the use of smartphones and software applications for geo-spatial analysis.

### Ecotourism

Complementing the social entrepreneurship approach under the Upland Community Management Program and the forest restoration effort through the BINHI Program, an ecotourism study was initiated by EDC. Specific to BMGP and as guided by experts on sustainable ecotourism projects, EDC has linked its organized farmers associations, federated as the Alliance of Bacman Farmers Association, Inc. (ALBAFAI), with the LGU Manito and the Department of Tourism (DOT) to commence a community-based mangrove ecotourism project in Manito, Albay wherein the success story of the mangrove reforestation project is showcased as well as the natural beauty of the locality and the culture. This year, the study has moved forward with the completion of the Manito Mangrove Tour Operations Manual and with the recent signing of a Memorandum of Agreement among the parties involved.

### Regulatory Compliance

EDC's operation is guided by applicable forestry laws, rules and regulations through proper coordination with government agencies and with the coverage of various instruments particularly the Special Land Use Permit (SLUP), Forest Land Use Agreement (FLAg), Tree Cutting Permit (TCP), Tree Pruning Permit (TPP) and Special Use Agreement in Protected Areas (SAPA). By committing full compliance to the applicable regulatory requirements, the Company is ensured to be operating in accordance to the prescribed legal standards. To date, EDC already acquired and has been complying with the terms and conditions of 2 FLAgs, 196 SLUPs, 5 TCP/TPPs and 2 SAPAs.

### Community Partnerships

Committed in promoting social prosperity, EDC supports its primary stakeholders by being responsive as it implements programs on health, education, livelihood and environment (HELEn). Such implementation strategy was applied to prioritize social considerations along with environmental protection, to ensure adequate information and communication to increase community awareness on sustainable development, to empower the communities towards self-reliance through effective livelihood activities, to promote youth development, to provide disaster and emergency response assistance, and to also express the highest respect and cultivation of the indigenous culture and traditions of the people within and adjacent to the project sites.

### Health

To enhance the capability of public health centers in delivering basic health services to the partner barangays, EDC has been providing the much needed medicine supplies and apparatus as well as seminars and trainings to enhance the skills of the barangay health practitioners. To date, the program has already covered 45 barangay health centers and 380 barangay health workers.

Recognizing that health is a matter very close to safety and disaster/emergency response, the Company has also initiated awareness campaigns, material support and training sessions to increase the capacity of the barangays and their readiness for unpredictable emergency cases. This year, the conducted Emergency Response and Disaster Preparedness trainings have catered 592 barangay residents.

EDC extended its support even to non-host communities in instances that are mostly

needed. Through effective collaboration and sincere volunteerism inculcated in EDC's culture, the management and employees have made initiatives to reach out certain localities in Albay during the Mt. Mayon crisis in 2018.

### Education

Recognizing that education is one of the primary concerns of the majority of community members across all project sites, EDC provides significant support to ensure that the youth are given basic educational materials and assistance needed from primary to secondary levels. In total for the year, the Company has provided school supplies to 24,210 students. In addition to the existing projects and with the initiative of volunteers, residents and donor employees, the BMGP site was also able to establish two (2) toy libraries in elementary schools in Sorsogon City (one is from a non-host barangay). Such initiative aims to assist the partner schools in achieving a conducive and student-friendly learning environment for the children.

To enhance the social well-being of people by bridging the education gap and by advocating functional literacy and progressive teacher and administrator training, EDC has also entered into a partnership with LGU Sorsogon City, Department of Education (DepEd) Sorsogon, and Teach for the Philippines (TFP), a non-government organization (NGO) that focuses on making a positive impact in the public education system with a view of improving the student's life path. In this agreement, TFP has commenced the expansion of their Teacher Fellowship Program and has piloted in EDC's partner schools wherein three (3) teacher fellows were assigned to the selected schools to work on the improvement of functional literacy among the students in the course of two years. (<https://www.energy.com.ph/teach-for-the-philippines-partners-with-edc-sorsogon-city-lgu-and-deped-to-send-teacher-fellows-in-local-school/>)

Further, deserving, talented and qualified but marginalized students are also ensured to be given equal access to quality education and be equipped for gainful employment through the College Admission Review and Readiness (CAREERS) Program. EDC takes pride that since this education program started to accept scholars in 2011, it has already produced 43 graduates from the University of the Philippines, wherein one graduated as Magna Cum Laude.

In 2018, CAREERS has even widened its scope that it now opens the opportunity for more students that can be admitted to local state universities and colleges. Thus, there are now more than 100 students who benefit from the program.

Livelihood. EDC is dedicated in helping its host communities to be uplifted, empowered and self-reliant. The Company also supports local employment and provides equal opportunity in recruitment and other employment prospects without discrimination on gender, ethnicity, religion and any other type of affiliation. Such commitment guided the Company in executing livelihood projects that cross-cut the other social and environmental initiatives. Thus, the local communities and organized people's organizations are considered for involvement in every activity or project of EDC, be it as worker, contractor or partner.

To further enhance the skills and knowledge of host community members, trainings

and seminars on agricultural productions, machineries, food industry, values formation and entrepreneurship were organized and offered. Such opportunities also aim to strike a balance between technical capacity and leadership potentials that need to be cultivated in each community member for the ultimate goal of making them collaborative but independent.

Apart from the efforts to equip the host community members for livelihood development, EDC awards projects that provide employment and generate income. In 2018, the Company has awarded small to large-scale contracts related to different company activities. In that manner, this livelihood-provision effort provided employment to some 604 community members.

#### Environment

To complement the existing Watershed Management programs, the Environment component of HELEn focuses on the socio-cultural and stakeholder engagement activities that relate with environmental advocacies of the Company. Thus, EDC as strongly supported by its employees and in collaboration with various stakeholders such as the host and non-host communities, LGUs, NGOs and national agencies, has been working on the “10M for 10” in Negros Island. This project aims to plant, grow and protect 10 million trees in 10 years to increase the forest cover of the Negros Island, to become the biggest region that united the most number of people and institutions in doing a bold move for the environment, to showcase ecosystem benefits, and to sustain businesses and create livelihood opportunities for people. This project is still in addition to the existing efforts of EDC on regular tree planting activities all over the country.



Moreover, EDC regularly teams up with the stakeholders in promoting proper waste disposal within the communities while also protecting the natural resources, consistent with the Solid Waste Management Act of 2000 (RA 9003). In alignment to this, EDC conducts quarterly clean-up drives in the adopted river systems like the Rizal River in Sorsogon City, through the Adopt-an-Estero Program of Environmental Management Bureau (EMB).

#### d. The Employees

##### Employees' Health, Safety and Welfare

EDC views employees as its most valuable resource and, thus, makes sure that they have a healthy and safe working environment at all times. This is seen from how the Company's Occupational Health and Medical Services (OHMS) has strived to go above and beyond in performing its role in the organization this 2018. The year's programs are centered on promoting a healthy workplace for the people and promoting their wellbeing.

The Health and Wellness programs of EDC for 2018 include: ***Emotional Wellbeing Program, Fitness For Duty for Employees and Contractors, Onsite Annual Health***

***Exam Facility, Medical Emergency Response Plan (MERP) of every facility, Health Data Management, Diabetes Awareness, Prevention, and Management, Blood Supply Program, Flu Vaccination, World Day for Safety and Health at Work, World AIDS Day, Infectious Disease Management, and Food and Drinking Water Safety.***

Further, programs were implemented to enhance organizational Capabilities of EDC’s OHMS Personnel. OHMS personnel were subjected to various trainings which were aimed at developing further their skills in performing their roles. Some of the trainings participated in by OHMS are ***First Aid and Basic Life Support training, Advanced Cardiac Life Support Training, Food and Drinking Water Safety Audit Training, and Resilience Series Facilitators Training.*** Opportunities for learning something new also came in the way in the form of training in new disciplines such as ***G-Suite App training, Integrated Management System Auditors Training, and Basic Health Promotion Course.***

Employee Empowerment

EDC knows that the growth and continued success of its business are driven by competent and highly-skilled employees. Thus, the Company provides employees with various training and development opportunities that aim to improve the quality of their performance. These include effective coaching skills, enhancement of interpersonal communication skills, safety awareness, business continuity preparations, and risk management that were all included in the 2018 Employee Trainings calendar.

The table below illustrates how this was implemented in terms of training hours per employee:

2018 Training Data (as of December 31, 2018)				
Rank	Average Training Hours per Employee		Total Training Hours	
	Male	Female	Male	Female
Executives	10.13	22.17	152	67
Managers and above	26.38	40.78	1,952	1224
Supervisors to Asst. Managers	60.88	49.81	22,646	5,529
Rank & File	39.18	41.59	54,698	18,923

Other employee activities include an ***On-boarding program*** for new employees, an annual ***Leaders' Assembly*** which serves as an advanced learning activity for leaders, executives and officers.

EDC’s compensation philosophy takes into account the overall performance of the company and each individual employee, translating these into a rational compensation and rewards scheme using the ***Company’s Performance Management System (PMS)***. Further, the Company formally recognizes tenured employees with at least 10 years of service, are given Service Awards for their hard work, professionalism, and loyalty. In 2018, the Company recognized a total of 247

employees for the years of quality service that they have rendered.

#### Employee Relations

EDC Management continues to nurture good relations with all 13 employee unions covering 720 employees. In 2018, through the Human Resource Management Group (HRMG), 4 town hall meetings and dialogues with employees are conducted to discuss the plans, programs, and business directions of the Company. Union leaders are likewise promptly informed about employee-related initiatives and in 2018, the Company arranged 4 management and union leaders' meetings.

### **3. Governance-related Policies.**

Aside from the Code of Conduct and Business Ethics (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:

#### a. Fraud Policy

EDC has a corporate fraud policy, which was established to facilitate the development of controls which will aid in the detection and prevention of fraud against the Company. It also aims to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls. 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 the rights and privileges emanating from due process.

#### b. 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 Internal Audit Department (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. +63 2 982-2202 or +63 917 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

*c. Code of Conduct and Discipline*

EDC's CCD, which was last revised on November 2015, prescribes the norms of conduct and standards of behavior for its employees to ensure EDC's core values are embraced by them in their work and daily lives. Electronic or hard copies of the CCD were made available and/or accessible to EDC employees.

*d. Guidelines on Giving and Receiving of Corporate Gifts*

EDC issued its Guidelines on giving and receiving corporate gifts on February 14, 2013. Said Guidelines 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.

*e. Anti-Sexual Harassment Policy*

EDC likewise 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.

*f. 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.

***D. DISCLOSURE AND TRANSPARENCY***

EDC endeavors to provide investors and all stakeholders timely, complete, and adequate information that may affect their decision to deal with Company shares. Material information about EDC are disclosed in accordance with SEC and PSE's reporting requirements.

**1. *Responsible persons for information disclosure***

EDC's President and members of Management, each in their respective sectors, review and approve major company announcements. The Company's Corporate Secretary/ Assistant Corporate Secretary and Compliance Officer, as may be applicable, are responsible for making timely disclosures to the SEC. In coordination with these officers and executives, while EDC was still a publicly-listed company, its Investor Relations (IR) Department is responsible for disclosing to the PSE and ensuring that disclosures are made prior to their release to the news media.

**2. *Contents of disclosures***

Disclosure of such information found in EDC's annual and quarterly financial statements (i.e. SEC Form 17-A and 17-Q) and other SEC and PSE reports (i.e. SEC Form 17-C, 20-IS, 23-A, 23-B, SEC Advisement Letters, PSE Disclosures etc.) includes, among others, operating and financial performance of EDC and its subsidiaries, acquisitions, sale and disposition of significant assets, EDC's ownership structure, information on major stockholders, beneficial owners holding 5% or more shareholdings, related party transactions and shareholdings of directors, biographical information on directors and members of board committees, dividend policy and declarations, remuneration of directors and senior management, corporate governance policies, audit and non-audit fees, details on board attendance to meetings, and such other non-financial information that may affect the investment decision of the investing public.

**3. *Medium / Channels of Disclosure***

These information are made available to the public in the form of press releases to the media in newspapers, in EDC's printed annual reports, and in the Investor Relations and Corporate Governance sections of the website ([www.energy.com.ph](http://www.energy.com.ph)) in the form of presentations and SEC/PSE regulatory annual and quarterly filings and disclosures, and lastly, in its email and intranet system for internal publications. We make sure that EDC's website and intranet system is regularly updated to include the latest news and current information about EDC.

These disclosures are likewise made electronically available through the Electronic Disclosure Generation Technology (EDGE) of PSE which are then posted on the PSE EDGE website.

Investors, stockholders, and other stakeholders are likewise provided with information about EDC, and its operating and financial performance, through one on one meetings, conference calls, investor conferences, meeting with investors, disclosures through structured and unstructured reports, and news /press releases.

As EDC was a publicly-listed company until November 29, 2018, stockholders, investors and interested parties were encouraged to contact EDC for additional information through its Investor Relations Office at Phone No: +63 (2) 982-2205 / 982-2184, or E-mail: [investors@energy.com.ph](mailto:investors@energy.com.ph).

**4. *Share Capital***

EDC's authorized capital stock as of December 31, 2017 is P30.15 Billion, divided into: (a) 27,000,000,000 common shares with a par value of Php1.00 per share, or an aggregate

par value of Php 27 Billion; (b) 15,000,000,000 voting preferred shares with a par value of Php0.01 per share, or an aggregate par value of Php150 Million; and (c) 300,000,000 non-voting preferred shares with a par value of Php10.00 per share, or an aggregate par value of Php 3 Billion. All common shares and voting preferred shares shall have full voting rights.

In view of EDC's delisting from the Exchange last November 29, 2018, detailed information on EDC's top 20 stockholders, parent company, holding company and subsidiaries, and security ownership of Directors and Management are found in the Notes to EDC's Financial Statements and in its SEC Form 17-A, as may be requested from the SEC, or viewed through the Company website.

## ***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 2018 Board of Directors consists of eleven (11) highly-qualified and highly-experienced professionals with core competencies on business, local and international finance, asset management and energy. On May 8, 2018, Federico R. Lopez, and Richard B. Tantoco, were elected as executive directors; Francis Giles B. Puno, Jonathan C. Russell, Joaquin E. Quintos IV, David Simon Luboff, David Andrew Baldwin and Christopher Eu Sun Low, were elected as non-executive directors, and Edgar O. Chua, Francisco Ed. Lim, and Manuel I. Ayala, were elected as independent directors. Mr. Oscar M. Lopez was declared Chairman Emeritus by the Board of Directors.

On December 5, 2018, Ms. Nicole Goh Phaik Khim was elected as EDC Director, vice Mr. David Luboff who resigned from the Board.

The size, balance and composition of the Board of Directors enables it to fully support its responsibilities to the Company's stockholders. The current Board of Directors have 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. Director Francis Giles B. Puno previously worked with the Global Power

and Environmental Group of the Chase Manhattan Bank where he executed financial advisory and debt arrangement mandates for power and water projects in Asia. Director Jonathan C. Russell was an executive of an international developer of independent power projects based in the USA and responsible for the development of large-scale IPP projects in Asia. Director Joaquin E. Quintos IV previously held the position of Vice Chairman of the Credit Information Corporation, the national credit registry of the Philippines, and executive positions in IBM Philippines. Director David Baldwin has 30 years of experience developing and operating industrial, energy and resource companies in Europe, Asia, Australasia, and the US, as well as 15 years leading listed and private businesses. Director David Luboff held the position of Chief Executive Officer of various Macquarie companies and led the establishment and management of a number of international Macquarie-managed infrastructure funds. Director Christopher Low led majority of the investments made in the Philippines by infrastructure asset manager MIRA. Director Nicole Goh Phaik Khim, is a Senior Vice-President at GIC's Infrastructure practice since 2008, where she has coverage responsibility for the Asia-Pacific region with prior experience investing in the US and Europe.

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 (5) 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 Group, so as not to compromise their independence. As of December 31, 2018, EDC's Independent Directors are Edgar O. Chua, Francisco Ed. Lim and Manuel I. Ayala.

The Board now comprises of 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 2, or 20% of the board, whichever is higher.

In 2018, the Non-Executive and Independent Directors met on February 22, 2018 without the presence of any of the executive directors and/or management to discuss the results of the 10th Annual Integrated CG Evaluation.

## ***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 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 Nomination and Compensation Committee (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, the Corporate Governance Office likewise ensures that the Directors receive a proper 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 PSE.

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 28 and 29 of the 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, provide that the maximum cumulative term of nine (9) 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 2018, none of the Independent Directors have a cumulative tenure of nine (9) 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.

While no woman is currently sitting in the Board, female directors have previously been elected, namely, Lilia R. Bautista [1987], Corazon R. Estrella [1987, 1990, 1998, 1999, 2000, 2001, 2002, 2003, 2004], Regina O. Benitez [1998, 1999, 2000], Veronica I. Jose [1999, 2000], and Asuncion J. Espina [2005, 2006].

### **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 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 corporation 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 P250 million.

#### **8. Board Meetings**

EDC's Corporate Secretary prepares the schedule of EDC's Board meetings, in accordance with the provisions in the By-laws, and disseminates it to the members of the Board and Key executives, through the Office of the President, 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 2018, the dates for EDC Board Meetings were issued by the Office of the President on January 4, 2018.

As reported to the SEC, the Board of Directors of the Company held its 2018 meetings on the following dates:

<u>Meeting Date</u>	<u>Meeting Type</u>
• January 26, 2018 (Friday)	Regular Board Meeting
• February 28, 2018 (Wednesday)	Special Board Meeting
• March 21, 2018 (Wednesday)	Regular Board Meeting
• May 8, 2018 (Tuesday)	Annual Stockholders Meeting, and Organizational Board Meeting
• July 11, 2018 (Wednesday)	Regular Board Meeting
• August 7, 2018	Special Board Meeting
• September 17, 2018 (Monday)	Regular Board Meeting
• December 5, 2018 (Wednesday)	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, the economic and environmental impact. The Board has direct contact and communication with Management and employees at any time. As a matter of protocol, Board papers for Board Meetings are provided at least five (5) business days before the date of the Board Meeting.

In 2018, the Board conducted a total of eight (8) meetings, including its organizational meeting. Details of the Directors' board meeting attendance are set out below:

	Name	Date of Election	Number of Meetings Held During the Year	Number of Meetings Attended	Percentage
Chairman & CEO	Federico R. Lopez	May 8, 2018	8	8	100%
Director, President & COO	Richard B. Tantoco	May 8, 2018	8	8	100%
Director	Francis Giles B. Puno	May 8, 2018	8	8	100%
Director	Jonathan C. Russell	May 8, 2018	8	7	87.5%
Director	Joaquin E. Quintos IV	May 8, 2018	8	5	62.5%
Director	David Andrew Baldwin	May 8, 2018	8	8	100%
Director	David Simon Luboff*	May 8, 2018	8	2	25%
Director	Christopher Eu Sun Low	May 8, 2018	8	7	87.5%
Director	Nicole Goh Phaik Khim	December 5, 2018	1	1	100%
Ind. Director	Edgar O. Chua	May 8, 2018	8	7	87.5%
Ind. Director	Francis Ed. Lim	May 8, 2018	8	8	100%
Ind. Director	Manuel I. Ayala	May 8, 2018	8	8	100%

\* *Mr. David Simon Luboff resigned from the EDC Board, and he was replaced by Ms. Nicole Goh Phaik Khim effective December 5, 2018.*

The minimum quorum requirement for board decisions under EDC's By-Laws is a majority of the members of the Board, with the presence of at least one independent director. Further, every decision of a majority of the quorum shall require the concurrence of at least one independent director for the validity of the decisions of the board.

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 in monitoring 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: the *Audit and Governance Committee*, *Nomination and Compensation Committee*, *Risk Management Committee*, *Corporate Social Responsibility Committee*, the *Operations Committee* and the *Related Party Transactions Committee*.

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

Committee	Members' Attendance in 2018
Audit & Governance	<p>Six (6) Meetings</p> <ul style="list-style-type: none"> <li>● Edgar O. Chua (I) - Chairman - 6</li> <li>● Francisco Ed. Lim (I) - 6</li> </ul>

	<ul style="list-style-type: none"> <li>● Manuel I. Ayala (I) - 6</li> <li>● Francis Giles B. Puno (N) - 5</li> <li>● Jonathan C. Russell (N) – 4</li> <li>● Joaquin E. Quintos IV (N) – 4</li> <li>● David Andrew Baldwin (N) - 4 **</li> <li>● David Simon Luboff (N) - 1*</li> </ul>
Nomination and Compensation	<p>Three (3) meetings</p> <ul style="list-style-type: none"> <li>● Federico R. Lopez (E) - Chairman - 3</li> <li>● Francis Giles B. Puno (N) - 3</li> <li>● Manuel I. Ayala (I) - 3</li> <li>● Joaquin E. Quintos IV – 1**</li> <li>● David Andrew Baldwin (N) - 1**</li> <li>● David Simon Luboff (N) - 2*</li> </ul>
Risk Management	<p>Two (2) Meetings</p> <ul style="list-style-type: none"> <li>● Francis Giles B. Puno (N) - Chairman - 2</li> <li>● Jonathan C. Russell (N) - 2</li> <li>● Joaquin E. Quintos IV (N) – 1**</li> <li>● David Andrew Baldwin (N) - 2</li> </ul>
Corporate Social Responsibility	<p>One (1) Meeting</p> <ul style="list-style-type: none"> <li>● Federico R. Lopez (E) - Chairman - 1</li> <li>● Richard B. Tantoco (E) – 1</li> <li>● Joaquin E. Quintos IV(N) – 1</li> <li>● David Andrew Baldwin (N) - 0</li> <li>● Edgar O. Chua (I) - 0</li> </ul>
Operations	<p>Seventeen (17) Meetings</p> <ul style="list-style-type: none"> <li>● Federico R. Lopez (E) - 1</li> <li>● Richard B. Tantoco (E) - 17</li> <li>● Francis Giles B. Puno (N) - 5</li> <li>● Jonathan C. Russell (N) - 15</li> <li>● Joaquin E. Quintos IV(N) - 14</li> <li>● David Andrew Baldwin (N) - 13</li> </ul>
Related Party Transactions	<p>Eight (8) Meetings</p> <ul style="list-style-type: none"> <li>● Manuel I. Ayala (I) - Chairman - 8</li> <li>● Edgar O. Chua (I) - 7</li> <li>● Francis Ed. Lim (I) - 8</li> <li>● Federico R. Lopez (E) – 2</li> <li>● Richard B. Tantoco (E) – 6</li> <li>● Francis Giles B. Puno (N) – 4</li> <li>● Jonathan C. Russell (N) – 8</li> <li>● Joaquin E. Quintos IV(N) – 5</li> <li>● David Andrew Baldwin (N) – 3**</li> <li>● David Simon Luboff (N) - 2*</li> </ul>

*\*Committee Member until May 7, 2018*

*\*\*Committee Member starting May 8, 2018*

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 and an archive of Committee reports for the previous years are available at the company website.

Members of EDC's different committees were elected by the Board during the organizational Board meeting, following the Annual Stockholders' Meeting, on May 8, 2018, and any subsequent change in the membership is made upon approval by the Board. The table above enumerates the elected members, as well as the changes, in the Board committees as of December 31, 2018.

To further enhance the participation and involvement of the Board in the activities of various committees, a resolution requiring the Committees to open its meetings for other directors to attend has been approved, wherein 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.

**a. Board Committees' Composition, Functions and Activities**

**i. Audit and Governance Committee (AGC)**

The AGC shall have at least three (3) non-executive directors as members, three (3) of whom shall be independent directors.

The AGC Chairman, Director Chua has more than 30 years experience in various fields, including auditing, general management and corporate affairs, and is not the Chairman of the Board or of any other EDC Board Committee. He has likewise served as Chairman of the AGC since 2011. He is supported by Directors Puno and Lim who have relevant background, skills and experience in the areas of accounting, auditing and finance since they served as AGC members since 2008 and 2010, respectively. Other AGC members, Directors Ayala, Russell, Quintos, and Baldwin also have relevant background or experience in areas of investment, finance and asset management. A more detailed profile or qualifications of the AGC members are found in the pages on Director's Profile.

The AGC is composed of 7 directors, with a change in membership during the year. Of the seven (7) AGC members, three of whom are independent directors, namely Francisco Ed. Lim, Manuel I. Ayala and Edgar O. Chua, its Chairman. Other AGC members are non-executive directors Francis Giles B. Puno, Jonathan C. Russell, and Joaquin E. Quintos IV. David Simon Luboff served until May 8, 2018, and David Andrew Baldwin served since May 8, 2018.

The 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 AGC's responsibilities are provided in the Corporate Governance Manual and the AGC Charter.

The AGC had six (6) meetings in 2018. Details of the 2018 AGC meeting attendance are found in the table of 2018 Board Committee Composition and Attendance.

The signed Audit and Governance Committee Report for 2018 is likewise attached to this Annual Report.

The following are the 2018 activities of the AGC:

- ***Financial Reporting and Disclosures.*** The AGC reviewed with management and the external auditor (SGV & Co.) the annual audited financial statements and the quarterly interim financial reports and endorsed these to the Board for approval and release to regulatory agencies, stockholders and lenders. The review included discussions on the appropriateness of accounting policies adopted by management, the reasonableness of estimates, assumptions and judgments used in the preparation of financial statements, the impact of new accounting standards and interpretations, and other key accounting issues and audit results as highlighted by the external auditor.
- ***Internal Control.*** The AGC monitored the effectiveness of the internal control environment through various measures such as the review of the results of the external audit regarding internal control issues; exercising functional responsibility over Internal Audit and Compliance Office and receiving reports on work done in assessing key governance, risk management and control components; discussion with management on major control issues and recommendations to improve policies and processes; and promoting a culture of integrity and ethical values in the company.

Based on the results of the assurance activities performed by the Company's Internal Audit, the external auditor's unqualified opinion on the financial statements, and discussions with management, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate and generally effective.

- ***External and Internal Audit.*** The AGC reviewed the overall scope and audit plan of the external auditor. It also reviewed and affirmed the management evaluation on the performance of the external auditor and approved the re-engagement of SGV & Co. for another year (2018 audit). It also approved the non-audit services rendered by external auditor, and the Internal Audit annual plan and ensured that independence is maintained, the scope of work is sufficient and resources are adequate.
- ***Compliance and Corporate Governance.*** The AGC monitored the Company's compliance to laws, regulations and policies. It also supported the Company's

initiatives to strengthen its corporate governance framework by providing full support to the Corporate Governance Office's efforts in (i) maintaining compliance with the Corporation Code and all other laws, rules and regulations on corporate governance, especially the Corporate Governance Code for Publicly Listed Companies, and (ii) ensuring that our directors, key officers and senior executives comply with the corporate governance requirements on reporting and disclosure, as well as trainings.

- ***Assessment of Performance.*** The AGC assessed its performance for the year 2018 based on the guidelines and parameters set in SEC Memorandum Circular No. 4, series of 2012, which specified the required provisions or contents of an audit committee charter and the assessment of the audit committee's compliance therewith. The assessment results showed that the Audit and Governance Committee charter remained fully compliant with SEC requirements and the committee has fully complied with requirements set forth in the audit committee charter.

#### **ii. Nomination and Compensation Committee (NCC)**

Under its Charter, the NCC shall have at least 3 directors, one of whom shall be an Independent Director. Currently, the NCC is composed of five (5) members, comprising of three (3) non-executive directors, one (1) independent director, and one (1) executive director. It is headed by Director Federico R. Lopez as Chairman. In 2018, there has been a change in NCC membership when Director Luboff was replaced by Director Baldwin.

The 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 are provided in the Corporate Governance Manual and NCC Charter.

In 2018, the NCC had 3 meetings. Details of the 2018 NCC meeting attendance are found in the table above on 2018 Board Committee Composition and Attendance.

During these meetings, the NCC reviewed the qualifications and credentials of Mr. Ryan Z. Velasco, as nominee for new Investor Relations Officer, the qualifications, credentials and disqualifications of the incumbent directors of the Company as nominees for re-election in the upcoming Annual Stockholders' Meeting, and the qualifications, credentials and disqualifications of Ms. Nicole Goh Phaik Khim as the nominee for Regular Directors to replace Mr. Luboff.

#### **iii. Risk Management Committee (RMC)**

The RMC Charter provides that the Committee shall be composed of at least 3

directors, as members; and as far as practicable, composed of non-executive directors, three of whom are independents. It is currently composed of four (4) non-executive directors, and headed by Director Francis Giles B. Puno as its Chairman. The RMC Chairman is not the Chairman of the board or of any other EDC Board Committee. He has gained knowledge and experience on risk and risk management since he has served as RMC Chairman and member since 2009. He is also supported by Directors Russell, Quintos and Baldwin.

The 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. In carrying out its mandate, the RMC:

- Conducts a yearly evaluation of the Company's risk assessment and risk management program and ensure that appropriate controls are in place;
- Recommends to the Board the Company's strategic risks, including the risk mitigation and control measures that require immediate or urgent implementation;
- Meets periodically with the Audit and Governance Committee, key management, and internal and external auditors to understand and discuss the control environment.
- Reviews the Company's risk tolerance, financial exposures, and investment guidelines, including the mitigating strategies, insurance, and other risk financing schemes being undertaken.
- Reviews periodically the security, safety, and physical loss control measures and the specific Emergency Response Plan adopted by the Company to ensure that all risks are adequately covered.
- Reviews annually the adequacy of the Risk Management Committee Charter and recommend any proposed changes to the Board of Directors.

The RMC conducted two (2) meetings in 2018. All RMC members attended all meetings in 2018. Director Quintos was admitted as Member only starting May 8, 2018, and he attended the RMC meeting held since the date.

The following are the activities of the RMC in 2018:

- ***Enterprise Risk Management Program.*** The RMC conducted several activities pursuant to their risk management program: Operational Risk Assessment, Critical Assets Risk (CAR) Monitoring, Natural Catastrophe Resiliency. The Risk Appetite Statement of the Company was likewise approved.
- ***Business Continuity Management Program.*** The BCM program includes the conduct of the following activities: Crisis Management, BCM Orientation, Desktop Simulation, launch of the Employee Emergency Communications Guideline, the Head Office Emergency Response Manual and the First Alert Report Guideline.

**iv. Corporate Social Responsibility Committee (CSRC)**

The CSRC shall be composed of at least three (3) members. Currently, the CSRC has five (5) members, composed of two (2) non-executive directors, two (2) executive directors and one (1) independent director. It is headed by Director Federico R. Lopez as Chairman.

The 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 are provided in EDC's Corporate Governance Manual and CSRC Charter.

In 2018, the CSRC reviewed major CSR projects of the Company and provided directions, strategies and necessary endorsements. Only one meeting was held by the Committee to provide guidance in the implementation of the CSR and environmental initiatives. Almost all of CSRC members were in attendance in said committee meeting.

**v. Operations Committee (OpsCom)**

The OpsCom shall be composed of at least (5) members of the Board of Directors. Currently, there are six members: two (2) executive directors and four (4) non-executive directors.

As provided in the Corporate Governance Manual and Operations Committee Charter, the Operations Committee 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.

In 2018, the Operations Committee held a total of 17 meetings, with an average member attendance of 80%. Pursuant to the Committee Charter, the presence of at least three (3) members of the Committee will constitute a quorum for the Committee meeting. Details of the 2018 Operations Committee attendance are found in the table above on 2018 Board Committee Composition and Attendance.

**vi. Related Party Transactions Committee (RPTC)**

The RPTC shall be composed of at least five (5) members, three (3) of whom are

independent directors. Currently, the RPTC has nine (9) members, seven (7) of whom are non-executive and independent directors. The RPTC is headed by Independent Director Manuel I. Ayala as RPTC Chairman. Director Ayala is not the Chairman of the Board nor a Chairman of any other EDC Board Committee.

The 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.

The RPT Committee had 8 meetings in 2018. Details of the RPT Committee meeting attendance are found in the table above on 2018 Board Committee Composition and Attendance.

In 2018, the RPT Committee reviewed all non-material and pre-cleared RPTS cleared by the RPT Management Review Panel, and all material and significant RPTs submitted for review, endorsement and approval.

Details of RPTs entered by the Company during the year are disclosed in the Company's Notes to the Financial Statements.

## **10. BOARD ACTIVITIES FOR 2018**

### **a. 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, the organizational and functional structure, among others. In addition to the in-house orientation given by the Company to the new Director, the Corporate Governance Office likewise ensures that the new Director receives a proper corporate governance orientation.

Also, 8 directors and 17 corporate officers and executives participated in the corporate governance seminar conducted for the year by a duly-accredited training provider. The corporate governance seminars provided EDC Directors, Corporate Officers and Senior Management an opportunity to learn and integrate corporate governance principles and be provided with useful insights on various and current governance issues. Further, as part of EDC's governance initiatives and beyond-compliance requirements, other members of the Management Team, such as the head of the various Business Units, also attended the Corporate Governance seminars for 2018.

### **b. 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 17, 2018.

The Strategic Planning Session 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 of reduced hydrocarbon prices and continued downturn of solar installation costs. The Directors likewise assessed major opportunities and risks for the company.

*c. The Corporate Governance Evaluation*

The Board’s Integrated Corporate Governance Evaluation helps the board assess the overall performance and effectiveness of the Board and the Board Committees as well as the performance of the President and the Chairman. The Integrated Corporate Governance Evaluation provides a constructive mechanism for improving board and committee effectiveness, identifying its strengths and weaknesses, and leading to an improvement in performance throughout the organization. Taken as a self-assessment tool, the CG evaluation helps the Board conduct a self-check of the governance responsibilities of directors and the board, as well of the Chairman and the President.

*d. 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.

In EDC, the current Board compensation package is as follows:

- Monthly director’s fee: P50,000.00
- Attendance fee for Directors' meetings: P10,000.00 per Board meeting and P6,000.00 per Board Committee meeting
- Bonus to Directors as a group: ½ of 1% of declared cash dividend
- Group Life Insurance Coverage
- Group Hospitalization Insurance Coverage

The compensation of the CEO and the four highest executives of the Company are presented in the table below:

<b>Name</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus/Other Annual Compensation</b>
Federico R. Lopez, Chairman & CEO			
Richard B. Tantoco, President & COO			
Nestor H. Vasay, Sr. Vice President, Chief Financial Officer and Treasurer			
Erwin O. Avante, Vice President			

Ariel Arman V. Lapuz, Vice President			
CEO and the four most highly compensated officers named above	2017	P38,194,000	P18,451,010
	2018	P41,017,620	P14,767,356
	2019(estimate)	P26,761,110	P10,915,300
Aggregate compensation paid to all officers and directors as a group unnamed	2017	P91,144,249	P85,066,313
	2018	P118,379,311	P97,584,922
	2019 (estimate)	P93,160,354	P77,799,276

*\*Note: Certain officers of the Corporation, including the top three members of senior management listed in the table above, are seconded and receive their salaries from First Gen Corp.*

Below is the total remuneration received by five (5) members of EDC's Management who are not at the same time executive directors during the financial year ending December 31, 2018:

Name of Officer/Position	Total Remuneration
Bernardito M. Lapuz /Vice-President	<b>P 68.239 Milion</b>
Ma. Elizabeth D. Nasol / Senior Vice-President	
Liberato S. Virata / Vice-President	
James A. Villaroman/ Vice -President	
Jay Joel L. Soriano/Assistant Vice President	

## V. INTERNAL AUDIT

EDC has a well-established and independent Internal Audit Group, headed by the Chief Audit Executive (CAE), Glenn L. Tee, which is tasked to perform the Internal Audit functions in the Company and to provide reasonable assurance to the Board, Management and stockholders 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 President/Chief Operating Officer. 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 as may be deemed necessary.

Based on the assessment of the Company's Audit and Governance Committee of the results of the assurance activities performed by the Company's Internal Audit, as well as the external auditor's unqualified opinion on the financial statements and discussions with Management, the Chairman of the Board and the Chief Audit Executive have executed an attestation to the effect that the systems of internal controls, risk management, governance and compliance processes of the Company are adequate and generally working effectively.

## VI. EXTERNAL AUDIT

The Audit and Governance Committee recommends to the Board the appointment of EDC's external auditors (subject to stockholder ratification), 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 2018 ASM to respond to auditing matters that may be raised by the stockholders. SGV & Co. was again approved by the Board and the stockholders for appointment as external auditor at the scheduled 2018 ASM.

Below is a table of the aggregate fees billed by SGV & Co. for each of the last three fiscal years:

Year	Audit and Audit-related Fee	All Other Fees
2018	₱14,407,996	₱1,697,642
2017	₱12,828,000	₱ 1,282,274
2016	₱13,191,237	₱ 2,782,924

Generally, the non-audit fees of SGV & Co. do not exceed its audit and audit-related fees. The Audit and Governance Committee approved the 2018 audit fees and the non-audit services of SGV & Co. Non-audit services rendered by SGV & Co. consist of advisory services, workshops and seminars.

## VII. ENTERPRISE RISK MANAGEMENT

### A. 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 strategic, operational, and project levels as shown below.



Figure 4. Levels of Enterprise Risk Management and Ownership

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

EDC's enterprise risk management system is embedded in its strategic planning and budgeting processes, as part of its strategy execution process. Risk assessments are conducted annually at the operational level of the organization. Correspondingly, risk treatment plans are formulated as part of the groups' annual work program and budget and are implemented to properly manage the identified top risks.

To facilitate the annual risk assessment activity, the following are implemented by the Company's Strategy and Risk Management Group:

- Review and updating of the Company's Enterprise Risk Management Manual that documents the risk management process, which is aligned with ISO 31000:2009 (Risk Management – Principles and Guidelines);
- Establishment of a risk dictionary to set a common risk language that enables common understanding of risks and allows for more focused risk discussions among risk owners; and
- Establishment of a risk register template to standardize risk documentation and to facilitate regular risk monitoring.
- Project risk assessment is also conducted for projects as part of the project management and enterprise stage-gate process. Project risk assessments are conducted by the project teams and are regularly updated and monitored as part of the project status reporting.
- EDC also has an established Business Continuity Management (BCM) system that covers emergency response, crisis management, and business recovery. The activities under the BCM system are implemented to address risks that are identified during the risk assessment exercise. These activities also include identifying and resolving normal and emergency information technology issues, such as network downtime and cyber security.