



AboitizPower
A Better Future

BOARD POLICIES

Conflict of Interest Situations



TO: ALL MEMBERS OF THE BOARD OF DIRECTORS, OFFICERS AND TEAM MEMBERS OF ABOITIZ POWER CORPORATION

FROM: BOARD CORPORATE GOVERNANCE COMMITTEE

DATE: AUGUST 03, 2012*

RE: POLICY ON CONFLICT OF INTEREST SITUATIONS

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A. INTRODUCTION

It is the policy of Aboitiz Power Corporation (hereinafter referred to as “AboitizPower” or “the Company”) that fair and impartial business transactions are concluded for the benefit of the Company and all its stakeholders. In this regard, the Company seeks to ensure that conflict of interest situations are addressed and avoided, and all transactions are conducted at arm’s length with consideration paid or received by the Company or any of its subsidiaries, and on terms no less favorable than any such terms available to unconnected third party under the same or similar circumstances.

The purpose of this policy is to set out the procedures that would ensure the integrity and transparency of all transactions between and among the Company or any of its subsidiaries, affiliates, associates, major shareholders, directors and officers. This policy is not intended to condone loans to directors and senior managers, which are forbidden and contrary to the corporate governance principles of the Company.

B. APPLICATION OF THIS POLICY

This policy applies to the Company’s directors and senior managers, as well as to transactions between the Company, its subsidiaries, affiliates, associates and major shareholders. This policy is intended to be applied in conjunction with existing statutory rules and regulations.

C REVIEW AND APPROVAL PROCEDURES

The Board Audit Committee shall clearly define the thresholds for disclosure and approval for conflict of interest situations and categorize such transactions that need not be reported or announced, those that need to be disclosed and those that need prior approval.

The Board Audit Committee may promulgate, as it may deem fit, a voting system whereby non –related party shareholders may approve specific types of related party transactions in shareholders meetings.

The Board Corporate Governance Committee shall from time to time, review and evaluate the Trading Policy of the Company that governs the disclosure of acquisition of Company shares by directors and senior managers.

D. DISCLOSURE POLICY

Directors shall disclose to the Board, through the Company’s Corporate Secretary, their business, financial and other similar interests, including details of all their other directorships and any shareholdings owned by them or members of their family that could potentially put him/her in conflict with the company’s interest. Any changes to these information must be communicated promptly to the Board of Directors through the Company’s Corporate Secretary.

It is the responsibility of each director and senior manager to promptly notify the Board, through the Company’s Corporate Secretary, of any actual or potential conflict of interest as soon as they become aware of it. It is the responsibility of a director or senior manager who has an actual or potential conflict of interest with the Company to inform the Board, through the Company’s Corporate Secretary, and obtain approval prior to entering into the transaction.

A transaction characterized by an actual or potential conflict of interest should be brought before the Board Audit Committee, which will determine if such transaction will benefit the Company. The Board Audit Committee shall then present the matter to the Board for discussion.

The conflicted board member shall not participate in discussions on transactions in which he/she is a conflicted party and shall also abstain from voting on such issues. The directors, excluding the conflicted director, should constitute a quorum in order to proceed with such meeting.

E. IDENTIFICATION OF VARIOUS CONFLICT OF INTEREST SITUATIONS

In General

There is a conflict of interest situation where the pursuit of a personal or business interest will potentially be deemed adverse to the best interests of the Company. It may concern a business opportunity which should properly be availed of by the Company or involve instances where the consummation of such transaction will result in a gain or disadvantage at the expense of the Company.

The following transactions may give rise to conflict of interests:

Related Party Transactions

For purposes of this policy, a “related party transaction” is a transaction between the Company or any of its subsidiaries and any “related party”.

“Related Party” includes the following:¹

- a. The board members of the Company, its parent company, affiliated or sister companies and associates.
- b. A parent company and any subsidiary or affiliated company that is not wholly owned.
- c. The CEO or General Manager, and key officers, including anyone who directly reports to the Board or the CEO.
- d. Any significant shareholder having the ability to control, or exercise a significant influence on, the outcome of resolutions voted on by shareholders or directors of the Company, its parent company, affiliated or associated companies.
- e. The father, mother, sons, daughters, husband or wife of any of the natural persons listed in clauses (a, b and c).
- f. Any business, and the directors, CEO and key officers of any business, in which the natural persons listed in paragraphs (a) to (e) own jointly or severally at least twenty percent (20%) of the voting rights.
- g. Any person whose judgment or decisions could be influenced as consequence of an arrangement or relationship between or involving themselves and any of the persons in paragraphs (a) to (f).

A “significant shareholder” of the Company is one who owns, or controls, or has the ability to exercise or influence the voting rights of, five percent (5%) or more of the shares of that company. “Immediate family” includes a person’s parent, grandparent, child, brother, sister, aunt, uncle, cousin, nephew, niece, spouse, widow or in-law.”

Transactions between companies with Interlocking Directors

There are “Interlocking Directors” where a member of the Company’s board of directors also serves on another company’s board where he owns shares exceeding twenty percent (20%) of the latter’s outstanding capital stock.

In deciding transactions between companies with Interlocking Directors, the directors shall be guided by the rule that approval of transactions are subject to the following condition:

1. the presence of director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
2. the vote of such director was not necessary for approval of the contract;
3. the contract is fair and reasonable under the circumstances; and
4. in the case of an officer, the contract with the officer has been previously authorized by the board of directors.

¹ This definition of related parties is intended to be consistent with the definition in IAS 24. In paragraph (d), the Company will generally interpret a significant influence as meaning owning or controlling more than 10% of the voting rights. Ownership or control of more than 20% of the voting rights is definitely a significant influence. In paragraph (f) “business” includes joint ventures.

Conflict of Interest in Management Contracts

A “Management Contract” refers to any contract whereby the Company or any of its subsidiaries undertakes to manage or operate all or substantially all of the business of another company.

There is a conflict of interest situation if the shareholders representing the same interests in both the managing and the managed companies own or control more than one-third (1/3) of the voting rights in the managing corporation, or a majority of the directors of the managing corporation also constitute a majority of the directors of the managed corporation.

Purchase of Company Shares

In the interest of transparency, and to prevent unfair use of information, any purchase of Company shares by any director or senior manager shall be immediately reported to the Corporate Secretary for appropriate disclosure within the timeline prescribed by law, and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

F. DISCLOSURE

The Company shall report to its shareholders in its annual report and accounts on all related party transactions and conflict of interest situations, to the extent required by applicable laws or regulations.

The Company shall likewise make the appropriate and legally required disclosures of such transactions and situations, including the relevant details thereof, to the SEC and the PSE.

G. POLICY REVIEW

The Board Audit Committee shall review and assess the adequacy of this policy at least annually and recommend for approval by the Board any changes it considers are needed.