



**AboitizPower**  
A Better Future

## CORPORATE GOVERNANCE

**2013**

# CORPORATE GOVERNANCE REPORT

## ABOITIZ POWER CORPORATE GOVERNANCE PRINCIPLES

AboitizPower continually adopts good corporate governance best practices because they create value for the Company and its businesses in order to thrive in its ever changing environment. We abide by the following core principles and practices of corporate governance: (i) the independence of the Company's personality from that of its Board, officers and employees; (ii) the view that the Company has its own distinct rights and duties; (iii) that the Board has the original power to decide the Company's policies; (iv) that the Company can demand loyalty from its Board, officers and employees; (v) that the Company's business must be pursued through a long term sustainability strategy; (vi) that shareholders and stakeholders must be treated Equitably and with Fairness; (vii) a system of Accountability; (viii) Transparency in corporate operations and company reports; (ix) an Ethical business; (x) Corporate Social Responsibility (CSR); and most importantly, (xi) Sustainability and Environmental Compliance.

The spring from where the Company's corporate governance practices arises is a Board culture that fosters collegiality and promotes independent-mindedness of directors, an environment of candid and free flow of ideas, and an atmosphere of robust discussion among directors and management. The Company's functioning Board Committees engender free channels of communication on all levels within the corporate structure and the professional management team.

The AboitizPower Board is committed to performing its roles in ensuring accountability of past actions (e.g., report to shareholders, legal and regulatory compliance and audit reports review) and monitoring and supervision of executive performance, financial results and budgets and possible corrective action, and its roles in determining future corporate strategies and in the making of present and future policies. To ensure alignment of vision, strategy and action, the Board held its annual Board Strategy Meeting last December 16, 2013 at the Company's principal offices in Taguig City.

Throughout the year, members of the Board participated in forums, seminars, and briefings on various issues and topics affecting the Company with the end in view of gaining depth and understanding of the Company's businesses and concerns. These seminars and trainings included, among others, lectures and one-on-one briefings regarding Open Access, overview and update on the Interim Mindanao Electricity Market (IMEM), Issues on Line Rental Charges, a Joint Audit and Risk Management Forum with the theme "Forging a Collaborative Alliance", and Board Audit Committee effectiveness.

## GOVERNANCE FOUNDATION

The Company, its Board, and its professional management team exercise their fiduciary duties owed to the Company's stakeholders within the context of the Company's ownership structure and the social, cultural, political and economic framework. The Company acknowledges that the AboitizPower ownership structure may be categorized as a firm with controlling shareholders and takes high precautions to ensure that appropriate corporate governance controls are in place to avoid insider opportunism. More importantly, the Board and the Management team govern the Company as responsible owners because they believe that this contributes to increased corporate and stakeholder value for the long term.

The Board recognizes the independence of the Company from that of the Board and Management and is thus committed to governance practices that will restrict insider opportunism and degrading of shareholder value. The Company is also committed to unhampered exercise of the minority shareholder protection and empowerment provisions under the Corporation Code of the Philippines. These statutory rules include the One-Share - One-Vote rule, Cumulative Voting, and supermajority vote for certain corporate acts, giving the minority shareholder the ability to influence Board composition (including Independent Directors) and approve major decisions of the Company, Board compensation, amendment of the Company's Articles of Incorporation and By-laws, and the treatment of Board duties as utmost fiduciary responsibilities. Current Company procedures and mechanisms require accurate and timely disclosures for transparency of processes, and insider trading and trading blackout guidelines, conflict of interest and related party transaction disclosure rules have been adopted and reviewed to prevent controlling shareholder opportunism in the ever-changing business environment.

The AboitizPower Board is comprised of nine Directors. To promote critical review and control of the management process, the Company's Directors, are non-executive and independent of management, except for the President & Chief Executive Officer (CEO), Mr. Erramon I. Aboitiz, Executive Vice President & Chief Operating Officer - Power Generation Group, Mr. Antonio R. Moraza, and Executive Vice President & Chief Operating Officer- Power Distribution Group, Mr. Jaime Jose Y. Aboitiz, who are part of the management team. The Board includes three highly-competent and dynamic Independent Non-executive Directors to whom shareholder concerns may be raised. Independent Directors are not subject to firing by management or by the Company's controlling shareholders since they are selected through the Board Corporate Governance Committee's process and in accordance with the requirements of the Philippine Securities and Exchange Commission (SEC), are elected by the shareholders at large. The Independent Directors have finance and audit experience. This process supports minority shareholder protection and empowerment. Other non-executive directors are independent-minded directors.

The Chairman for the year May 2013 to May 2014, Mr. Enrique M. Aboitiz, Jr., and the Company's

President & CEO, Mr. Erramon I. Aboitiz, are brothers. However, despite their relationship, their respective roles are clearly delineated in the Company's Articles of Incorporation and By-Laws to avoid overlapping of roles and to ensure checks and balances. Each of these Directors is independent-minded and is known for their high regard and commitment for governance within the organization.

Pursuant to the One-Share - One-Vote rule, the Company does not have any arrangements that unbundle or separate voting rights and cash flow rights of shareholders. All shareholders are equally entitled to voting and dividend rights in accordance with their equity holdings. This rule ensures that the Company's controlling shareholders' interests are aligned with the minority shareholders' interests. There are no shareholders agreements or arrangements affecting or limiting or controlling voting rights of any other class of shareholders.

The Company has entrenched policies on transactions with related parties requiring the full disclosure thereof in the Company's financial statements and in other Company reports. The Company's related party transactions include, among others, written service level agreements with its affiliates and subsidiaries for human resources, internal audit, legal, treasury and corporate finance services, guarantees of credit accommodations of subsidiaries and affiliates and intercompany advances for working capital requirements of subsidiaries and affiliates. The Company does not set thresholds for disclosure of related party transactions, but rather fully discloses all related party transactions regardless of amounts in full compliance with existing Philippine financial accounting standards. The Company also ensures that they have the character of arm's length transactions. These disclosures are made in the Company's Annual Audited Financial Statements and Management Reports.

The Company strictly follows the Philippine Corporation Code and SEC rules on voting for specific corporate acts where levels of approvals for specific types of related party transactions in the Board and in shareholders' meetings levels may be required. The Company's Independent Directors and the Board Audit Committee play an important role in reviewing significant related party transactions. The Company's related party transactions are typically agreements entered into in the ordinary course of business to maximize efficiencies and realize cost synergies. These are reported to the Board as they are entered into.

## SHARPENING OUR COMPETITIVE EDGE WITH GOOD GOVERNANCE

Sound corporate governance principles are the foundations for building and keeping the trust of investors. The Company takes a long term and sustainable position on its corporate existence, goals and strategies. A balancing of all stakeholders' interests is necessary to avoid being locked in a short term business perspective. The Company's corporate governance, rooted on a values-based corporate culture for a sustainable future, is its primary benchmark



for corporate governance. AboitizPower is committed to preserving its fundamental core values and embedding these in its daily business practices.

Good corporate governance principles are being practiced by the Company to achieve sustainable growth. The Company has a mindset of finding better ways to do its businesses and at the same time striking a balance of Three Ps, namely, People, Planet and Profit for corporate governance and sustainability. It continually endeavors to live up to its brand promise of increasing shareholder value based on a commitment to corporate governance best practices.

As a Philippine company listed on The Philippine Stock Exchange, Inc. (PSE), the Company must comply with a number of laws and rules that affect it and its subsidiaries' governance. In the pursuit of its core businesses and in its dealings with all stakeholders, the Company complies with the following general and special laws and various implementing rules and regulations which constitute its legal framework: The Philippine Constitution, the Securities Regulation Code, the Administrative Code, the Corporation Code of the Philippines, the Labor Code of the Philippines, the Civil Code of the Philippines, the Revised Penal Code and its amendments, the National Internal Revenue Code, the Electric Power Industry Reform Act of 2001, the Renewable Energy Law, the Clean Air Act, the Social Security System Law, the Consumer Protection Act, the Price Act, the Intellectual Property Code, the Foreign Investments Act, the Property Registration Decree, the Omnibus Investments Code, the Philippine Economic Zone Authority Law, the Anti-Pilferage of Electricity and Theft of Electricity Transmission Lines Act, Clean Air Act, Clean Water Act, Renewable Energy Law and other applicable statutes, implementing rules, regulations, guidelines, and governing circulars and policies of the SEC, the PSE, the Department of Energy (DOE), Department of Environment and Natural Resources (DENR), the Energy Regulatory Commission (ERC), the Wholesale Electricity Spot Market (WESM) and the Philippine Electricity Market Corporation (PEMC), the Philippine Grid Code, the Philippine Distribution Code, and other relevant administrative agencies with oversight of its core businesses. Our regulators include the SEC, the PSE, the DOE, the Bureau of Internal Revenue (BIR), the ERC, the Board of Investments, the Land Registration Authority, the Bureau of Customs, National Commission on Indigenous Peoples and the offices of the local government units, among others.

Other policies include the policies of the Group Mancom, AEV Mancom and other Departmental policies, Risk and Reputation Management Policies and other Company and Aboitiz Group policies and guidelines.

Since the Company went public in 2007, it has participated in the Institute of Corporate Directors (ICD) Corporate Governance Scorecard, the PSE Corporate Governance Disclosure Survey, and the ASEAN Corporate Governance Scorecard exercise for Philippine companies. Its corporate governance practices were consistently recognized by the ICD through the annual ICD corporate governance awards as well as by Corporate Governance Asia.

### *Corporate Social Responsibility*

AboitizPower is managed with the same view of Corporate Social Responsibility (CSR) as Aboitiz Equity Ventures, Inc. CSR is a way for business enterprises like the Company to manage its business processes to produce an overall impact to society. As a corporate citizen, it is the Company's continuing commitment to behave ethically and contribute to the economic development while improving the quality of life of its workforce, their families, our customers, our local communities, our government and society at large whilst committed to sustainability. Bottom line being, that Corporate Social Responsibility is about business giving back to society and acting in an ethical and transparent manner in all its dealings with all stakeholders in society.

The Company's Corporate Social Responsibility has a long history. We believe that CSR is an integral part of how we operate our businesses and part and parcel of our overall governance and philosophy of being responsible members of our society by sharing and being a neighbor of choice wherever our companies operate.

As the Aboitiz Group grew, CSR began to take on a much broader and more meaningful perspective; it was no longer merely about doing philanthropic acts but also reaching out to partners within our different communities. It has since evolved into a more organized, structured, and professionalized commitment from a dedicated team and from the Aboitiz workforce. In 1988, the Aboitiz Group established the Aboitiz Foundation as the social development arm of the Aboitiz corporate group. CSR teams from business units nationwide were formed and now work together with the Aboitiz Foundation in areas where our companies are located. The business units are mandated to allocate a percentage of their profits every year to fund the Foundation's projects in their respective areas of operations and be the neighbor of choice to their host communities.

The focus areas of our group CSR are primarily education, enterprise development, and environment. Over the last five (5) years, the Aboitiz Group has allocated more than P1.5 billion for its various CSR projects. For 2013 alone, around P483 million was earmarked for projects. In addition, Aboitiz Foundation has collaborated and partnered with other organizations and foundations when there was alignment of goals or when a greater need of society required more interdependent CSR strategies were required to assist society.

### *Our Stakeholders*

Our commitment to corporate governance practices involves a commitment to all our contractual stakeholders and our other community of stakeholders. Our contractual stakeholders include our Customers, our Employees, our Business Partners, our Suppliers, Shareholders, Lenders,

and Alliances. We also recognize our community stakeholders who are Consumers, Regulators, Government Agencies, Local Governments, Politicians, Local Communities, Traditional and Social Media, Non-Governmental Organizations, Trade Groups, Advocacy Groups and other groups within the general spheres of influence.

### *Our Regulatory Framework*

In the pursuit of our core businesses and in our dealings with all our stakeholders, we comply with various general and special laws and their implementing rules and regulations.

Our internal regulatory framework is primarily based on the corporate governance principles and policies laid down in the Articles of Incorporation and By-Laws, the Amended Manual of Corporate Governance, the Code of Ethics, Board Protocol, and Board Committees Charter and work procedure and policies, policies of the Group Mancom, the AboitizPower Executive Committee, the AP Distribution and AP Generation Boards, and other Departmental policies, Risk and Reputation Management Policies and other Company and Aboitiz Group policies and guidelines.

## COMPLIANCE WITH THE SEC CODE OF CORPORATE GOVERNANCE

The Company's Manual of Corporate Governance (Manual) clearly states that corporate governance is a necessary component of what constitutes sound strategic business management and enjoins the Board, the management and employees to undertake every effort necessary to create this Company wide awareness as part of the Aboitiz corporate culture. The Manual was approved by the Board at its regular meeting on April 26, 2007, shortly before it became a publicly listed company. Since its adoption, the Company has reviewed, revised, updated and amended the Manual through subsequent Board actions in keeping with evolving best practices. AboitizPower is committed to complying with best practices corporate governance whenever possible, including the continued compliance with the SEC's form corporate governance manual. The Board regularly reviews the Manual in order to update its practices in line with the SEC's and the PSE's regulatory amendments and global developments

To ensure that the Manual remains updated and responsive to the demands of the business and legal environments, the Board committees regularly review the Manual. The Company amended the Manual and updated the Company's practices in the following areas: (a) Selection of the Board of Directors and Officers; (b) Composition of the Board Corporate Governance Committee; (c) Changes in the Board Risk Management to Board Risk and Reputation Management Committee; and (d) Updates to the Board Audit Committee Charter.

The Board Corporate Governance Committee oversees and initiates any changes or amendments

to the Manual. On May 11 and August 1, 2012, the Board Corporate Governance Committee, approved the proposed amendments to the Manual to comply with new requirements of the SEC, such as the rule on the terms of Independent Directors under SEC Memorandum Circular No. 9, Series of 2011. The most recent amendments were submitted to the SEC on February 18, 2013 and January 10, 2014.

## COMPANY VISION: A BETTER FUTURE

AboitizPower sets a well-defined vision that inculcates a dream to work for a better future for our country. The Company's vision is to actively develop and offer better energy solutions to meet the Philippines growing energy demands while committing to sustain the Earth's limited resources. Its targets for further growth and expansions are clear and calculated. Driven by our passion for better ways, the Company continues to relentlessly pursue a path towards an even better and greater future for its organization and the country. As a publicly-listed company, the Company's investment focus is for its businesses to provide reliable and ample power supply when needed, and to ensure that the supply of electricity is provided at a reasonable and competitive price. The Company believes it is its responsibility to accomplish these goals with the least possible adverse effect on the environment.

AboitizPower's brand promise is Better Solutions. That is, AboitizPower is actively developing and offering effective energy solutions to meet the Philippines' energy demands yet keeping a commitment to sustain the Earth's resources. Its mission is to find better solutions to address the needs of our customers and to bring new ideas to market whilst exercising responsibility to sustain earth's resources and that of our environment, encourage energy conservation and efficiency while growing the energy supply but also encouraging the adoption of renewable energy. AboitizPower brand attributes, namely, "Pro-active", "Expert" and "Responsible", direct the Company to anticipate and meet customer needs; to constantly acquire, share and apply power knowledge and commit to sustain earth's resources and the environment, respectively. AboitizPower considers it a responsibility to provide reliable and ample power supply when needed, to ensure that the supply of electricity is provided at a reasonable and competitive price and lastly, to accomplish the first two duties with the least possible adverse effects to the environment. Our Cleanergy Brand reflects this vision of AboitizPower: to offer energy solutions that leave a lighter impact on Earth's climate and its limited resources and to promote the usage of clean and renewable energy from sources that are sustainable and cleaner than fossil fuels. *(See details of Cleanergy Brand in Sustainability Report)*

## OUR VISION, OUR RESPONSIBILITY, OUR CHALLENGES

AboitizPower aims to be a world-class organization by the end of 2014, having grown the organization from a manpower count of 336 in 2004 to 1382 in 2013. In achieving our "Vision

of A Better Future”, and our “Mission of Finding Better Power Solutions for our stakeholders,” its responsibility is clear: We need to provide reliable and ample power supply when needed. We need to ensure that the supply of electricity is provided at a reasonable and competitive price. And we need to do this with the least possible adverse effects on the environment and our communities. AboitizPower recognizes that its growth requires balance of the drivers of business development and responsive stakeholder engagement.

We are fortunate to be in a good position of leadership and strength. But if there is anything that the last few years have taught us, it is that there is no such thing as “Business As Usual”.

New risks, new challenges and new stakeholder expectations, new markets, new competitors and new regulations will force us to continue revisiting what and how we do things. We understand the need to be nimble, to be able to implement and to be willing to participate in an ever-changing future.

Our power distribution’s once simple model of purchasing power from the NPC, distributing electricity, collecting revenues and securing rate increases has disappeared.

In power generation, take or pay contracts, government performance undertakings and other safety nets are a thing of the past.

With the EPIRA, we have actually seen the industry’s business model unravel over the past few years, and we are seeing it reinvent itself. EPIRA’s reforms have changed the power industry landscape carrying with it evolving risks and opportunities.

The recent implementation of Open Access under the EPIRA has not been without any regulatory and market challenges, but it remains as one of the most crucial reforms in the industry. From a regulated, monopolistic industry, the power industry is becoming a competitive, market-driven one. Open Access now gives customers the power to choose their generation providers.

Consumers will understandably exert efforts to lower their expenses by encouraging one power supplier to compete with the other. On one hand, we view this as a chance to expand. On the other hand, consumers will perceive this as a favorable time to buy power from varied sources, and urge suppliers to offer the most beneficial deals.

Current market and regulatory challenges may continue to reshape the power industry through judicial review. AboitizPower is striving to navigate through these challenges but staying steadfast to its core principles, vision and mission.

## AN ETHICAL BUSINESS

The Aboitiz Code of Ethics and Business Conduct adopted by the Company in 2002 sets out how the Executive Management, team leaders and team members can achieve and maintain ethical standards in the Company's day to day operations and summarizes the Company's fundamental policies and directives.

The Code of Ethics and Business Conduct clearly sets the standards, policies and procedures on proper business conduct with co-employees, shareholders, investors, suppliers, customers, analysts, creditor and financial institutions, fair dealings, conflicts of interest and related party transactions, inappropriate gifts and favors, appropriation of corporate opportunities, dealing with proprietary and confidential information and Company system and assets, use and misuse of inside information, fair and truthful disclosures to the public, maintenance of accurate books and records, respect and dignity accorded to others, promotion of safe and healthy working environment and the enforcement and administration of the Code of Ethics. The Code of Ethics and Business Conduct guides employees, the Board and Management in the Company's day to day business operations of in confronting the myriad issues that arise in a business as diverse and dynamic as that of the Company. The detailed implementation of the Code of Ethics and Business Conduct is overseen by the Board Corporate Governance Committee, by the Chief Compliance Officer, as well as the functional team leaders in the Company.

In 2011 the Board mandated a corporate governance seminar program for all employees, for both Team Leaders and Team Members. All newly-hired employees of the Company attend a new hires' seminar and an annual Quality Focus seminar that includes an orientation on the Company's Manual and Code of Ethics and Business Conduct. In 2013, the Company launched its online Corporate Governance E-learning Course for all employees. This is taken by all employees through a web-based portal and application. These mandatory seminars are conducted to inculcate in or refresh all employees' awareness and understanding of the Manual and the Code and the underlying principles of corporate governance and ethical behavior and conduct. Employees receive compliance certificates for such seminars. The Company's officers and employees complied with the mandated Corporate Governance Seminar.

To protect proprietary information of the Company, its subsidiaries and its affiliates, the Directors, Officers and Team Members of the Company sign a Non-Disclosure Agreement in accordance with the applicable provisions of the laws of the Philippines, the Company's Articles of Incorporation and applicable rules and regulations issued by the regulatory bodies.

All employees have an individual responsibility to ensure that business practices adhere to the rules of the Code of Ethics and Business Conduct. Generally, no employee or officer seek or has sought exemptions from the application of the corporate governance rules and guidelines of the Company. Adherence to the Code of Ethics and Business Conduct is actively encouraged. Employees are empowered to exercise their sound judgment and decision in day to day life, and demonstrate one's commitment to the core values of the Company.



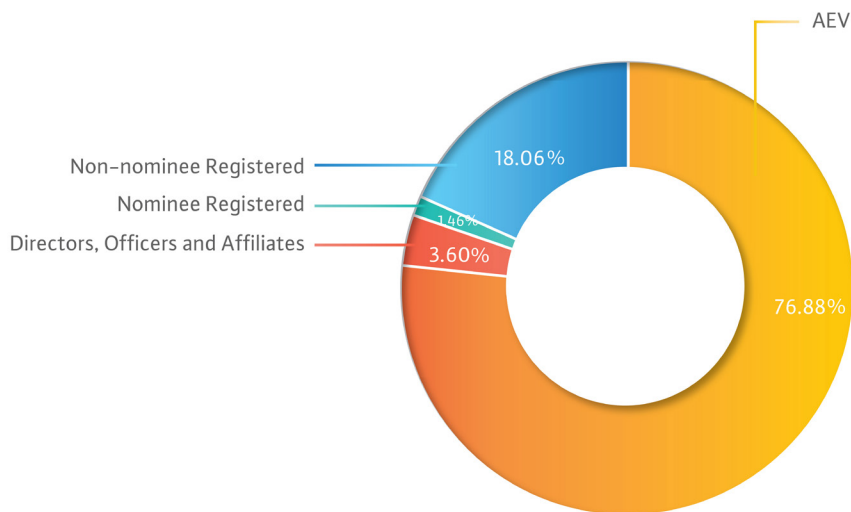
## ABOITIZPOWER OWNERSHIP STRUCTURE

The share capital of the Company consists of one class of listed common shares and a class of non-listed preferred shares. All common shares are voting shares following the rule of One -Share - One-Vote. The preferred shares are non-voting, non-participating, non-convertible, cumulative, reissuable shares and may be issued from time to time by the Board in one or more series. These preferred shares are generally issued to financial institutions or financial market intermediaries and are treated by the Company and its auditors as debt instruments and disclosed as such in its books, in conformity with the Philippine Accounting Standards and the International Financial Reporting Standards as implemented by the SEC. *(See Management's Discussion and Analysis or Plan of Action and the Company's Financial Statements)*

According to the share register kept by The Hong Kong and Shanghai Banking Corporation Limited, the Company's stock and transfer agent, as of March 31, 2014, AboitizPower has 615 shareholders. As of the same period, AEV, another publicly-listed holding company, owns 5,657,530,774 or 76.88% of the 7,358,604,307 of the total outstanding and common stock entitled to vote. Of the publicly held shares, 19.52% are owned by institutions and/or are nominee-registered (9.82% Filipino & 8.24% Foreign), i.e., held of record by banks, brokers and /or nominees, such as the PCD Nominee Corp. This means that the actual shareholder may not be reflected in the share register or included in shareholding statistics. As a result, the ultimate shareholder of such nominee-registered shares may not participate in shareholder votes and other actions, unless otherwise represented by proxy or nominee. Moreover, the Company's Directors, Officers and Affiliates own 264,588,494 shares or 3.60% of the total outstanding common stock entitled to vote.

The Company has exerted efforts to initiate the communications between the Company and the institutional shareholders through its Investor Relations Office and to the nominee registered shareholders through the PCD Nominee Corporation.

Below is a general view of the Company's shareholder composition:



AEV is a publicly listed company with 9,616 shareholders as of March 31, 2014.

## THE BOARD’S VISION AND MISSION

The Company’s Board of Directors recognizes its role of providing leadership and stewardship to the Company, its stockholders, and all other stakeholders. The role of the Board is to represent and protect the interests of the owners of the business and other key external stakeholders, regardless of category, within the boundaries of its corporate charter, and all relevant statutes and legal regulations and rules. The primary purpose of the Company’s Board is to provide governance and oversight to the Company and its businesses in which it has direct or indirect interests. In addition, its responsibilities extend to other stakeholders in respect of compliance with regulatory standards; the provision of appropriate information and updates; and the effective representation and protection of the Aboitiz brand and reputation. The Board is responsible for the success of the Company through its supervision and oversight over affairs in a responsible and effective manner.

## CHALLENGES & STRATEGIES

The top challenge for AboitizPower today is to pursue continued and sustained growth of its businesses within its relevant political and regulatory universe, matching this growth with the appropriate organizational capability, and building and maintaining its corporate brand for the benefit of all its stakeholders.



The Company believes that available, reliable and affordable electricity is the lifeblood of the country, fueling both the economy and individual opportunity. The Company therefore considers it its responsibility to provide reliable and ample power supply, when needed, to ensure that the supply of electricity is provided at a reasonable and competitive price; and to accomplish the first two duties with the least possible adverse effects on our environment.

The success of AboitizPower's mission is aligned to the right answers to the following questions: How to proactively work with its customers? How to apply its expertise and provide better solutions? How to exercise responsibility to sustain the earth's resources and environment?

To meet these challenges, AboitizPower has strategically developed functional teams and boards along the lines of its core businesses, namely, AP Generation, AP Distribution, AP Regulatory, AP Sales, Trading & Marketing, AP Business & Projects Development, and the Office of the Chief Finance Officer. These functional boards oversee the specific business units within the AboitizPower Group of Companies. The key roles of AP Corporate Center in relation to the AboitizPower Business Units are to assist and provide general and specific expertise, to learn and propagate best practices among the Business Units, to take part and drive the strategic planning process, to set financial, fiscal and operating parameters, to source and optimize key or necessary talent, to identify synergies and determine group-wide policies and help improve and uplift the overall performance of all Business Units. To further support AboitizPower in the successful execution of its business strategies, it has entered into written service level agreements with AEV Corporate Center for its additional Human Resources services, Treasury, Accounting, Risk Management, Legal & Corporate, and Computer and Information Technology services. These shared services are intended to provide corporate governance controls, knowledge building, and a business partnership net for AboitizPower for itself, as well for the Company's subsidiaries and affiliates, in order to keep it aligned to its strategies and anchored on solid grounds. These arrangements are made on an arms-length basis and with market-based benchmarks.

## PERFORMANCE GOVERNANCE SCORECARD AND STRATEGIC

## INITIATIVES

In 2013, AEV Management shared its Balanced Scorecard approach to setting goals and entitles each team to adopt standards for measuring achievement of goals. As a starting point, AboitizPower is reviewing the key components of organization, policies and standards, systems (for efficiency) and service levels to stakeholders.



## ALIGNMENT AND EXECUTION OF STRATEGIES

AboitizPower has laid down the foundation for growth and expansion of generation capacity and the execution of the next level business strategies. The Company proceeded with its enterprise risk management system building for the Company and for its business units, in recognition of the challenges ahead on the road to sustained growth. AboitizPower executed protocols and organizational structures for streamlining of business processes, and worked on goal setting and alignment of corporate governance standards, creating and nurturing strategic business partnerships, assessing the directions of the power industry, building the corporate culture for newly acquired business, and generally gearing up for a planned growth of its businesses. Such alignment and execution of goals follows the framework of the strategic balanced scorecard, taking into account the interest of AboitizPower’s stakeholders.

Its 2013 corporate strategic goals and the initiatives focused on implementing Risk Management Plans, Asset Management programs, Building the organization to catch up with current and future growth, Building the Aboitiz culture across the Group, Implementing Project Management Training, Implementing Safety Management, Integrating Corporate Social Responsibility, Sustainability, and Branding programs and Implementing Environmental Compliance System.

The AboitizPower Business Development Team is expanding and is continuing to evaluate new business opportunities.

The major focus in 2013 was to continue to expand our greenfield priorities for power generation to improve efficiencies of the distribution utilities, and to fully contract our generation capacity with bilateral counterpart distribution utilities.

## ALIGNMENT OF GOALS AND MONITORING OF PERFORMANCE THROUGH SUCCESS FACTORS

AboitizPower utilizes Success Factors, a web-based technology tool (or some of its modules) for the alignment of strategies and goals. Success Factors is a tool enabling alignment of goals from the Chief Executive Officer (CEO) all the way down to the team leaders and members of its organization, even down to the business units. Success Factors is an on-demand Performance and Talent Management software module enabling all team members in the organization to create their individual goals on line and allowing employees to understand what is expected from them, giving them a sense of accountability on their deliverables in relation to the alignment to corporate goals. It provides a very critical key in maintaining clear and unobstructed line of sight- employees are able to see and appreciate how their goals contribute to the Company's overall goals. The Company's Distribution businesses are already using Success Factors.

The Success Factors Performance Management technology allows AboitizPower team leaders and members to set goals and monitor progress of each employee's goals and determine gaps in skills and competencies. Through Success Factors suite of tools, each employee can view his tangible contribution and alignment of his corporate and personal goals all the way through to top management while top management, i.e., the CEO and AP Generation and AP Distribution Utilities and AP Trading Team Leaders, can also view the cascade of his goals to all employees. This accessible view includes the status of the execution of all goals of Team AboitizPower.

For performance, the Board Corporate Governance Committee organizes the assessment of the performance of the CEO by the members of the Board and the Board's own performance through an annual performance scorecard, while Corporate HR provides the numerous annual

key officers, performance and competence assessment reviews, whether it be a 360-degrees survey, a Key Talent Review, a Success Factors Goals accomplishment review and other annual job performance measures.

## ABOITIZ INTEGRATED MANAGEMENT SYSTEM (AIMS): COMBINED ISMS AND QMS

In 2013, the Company, together with AEV, successfully merged two recognized management systems - Information Security Management System (ISMS) ISO 27001:2005 and the Quality Management System (QMS) ISO 9001:2008, to create a simplified and unified approach to data security, quality services and products, with the objective of attaining company sustainability, transparency, and ultimately investor and customer satisfaction.

In 2009, the Aboitiz Group Data Center was certified for ISO 27001:2005. The Company Data Center passed its surveillance audit. It has continually implemented and maintained a coherent set of policies, processes and systems to manage risks of the Company's information assets, thus ensuring acceptable levels of information security risk. The Company also recognizes the need for a well-documented system for non-IT assets and processes that ensures consistency and improvements of working practices including the products and services produced. With the merger of ISMS and QMS, the Aboitiz Group Data Center was re-certified for the 27001:2005 at the end of 2013 by TUV Rheinland, an international certifying body based in Germany.

QMS defines and interacts with all activities of the organization, beginning with the identification of customer requirements and ending with their satisfaction, at every transaction interface. It provides consistency and satisfaction in terms of methods, materials, equipment, and other items.

The AIMS is committed to Customer Confidence and Satisfaction, Continual Improvement, Measurable Processes, Confidentiality, Integrity, and Availability of Information.

With the integration of the IMS and QMS systems under the AIMS in every department, the Company will be more disciplined in defining precise procedures, responsibilities and documentation. The Company will also gain a better insight of the system and can identify the improvement areas easily.

The Company, together with AEV, has adopted the eight (8) management principles of Customer Focus, Leadership, Involvement of People, Process Approach, System Approach to Management, Continual Improvement, Factual Approach to Decision Making, and Mutually Beneficial Supplier Relationships.

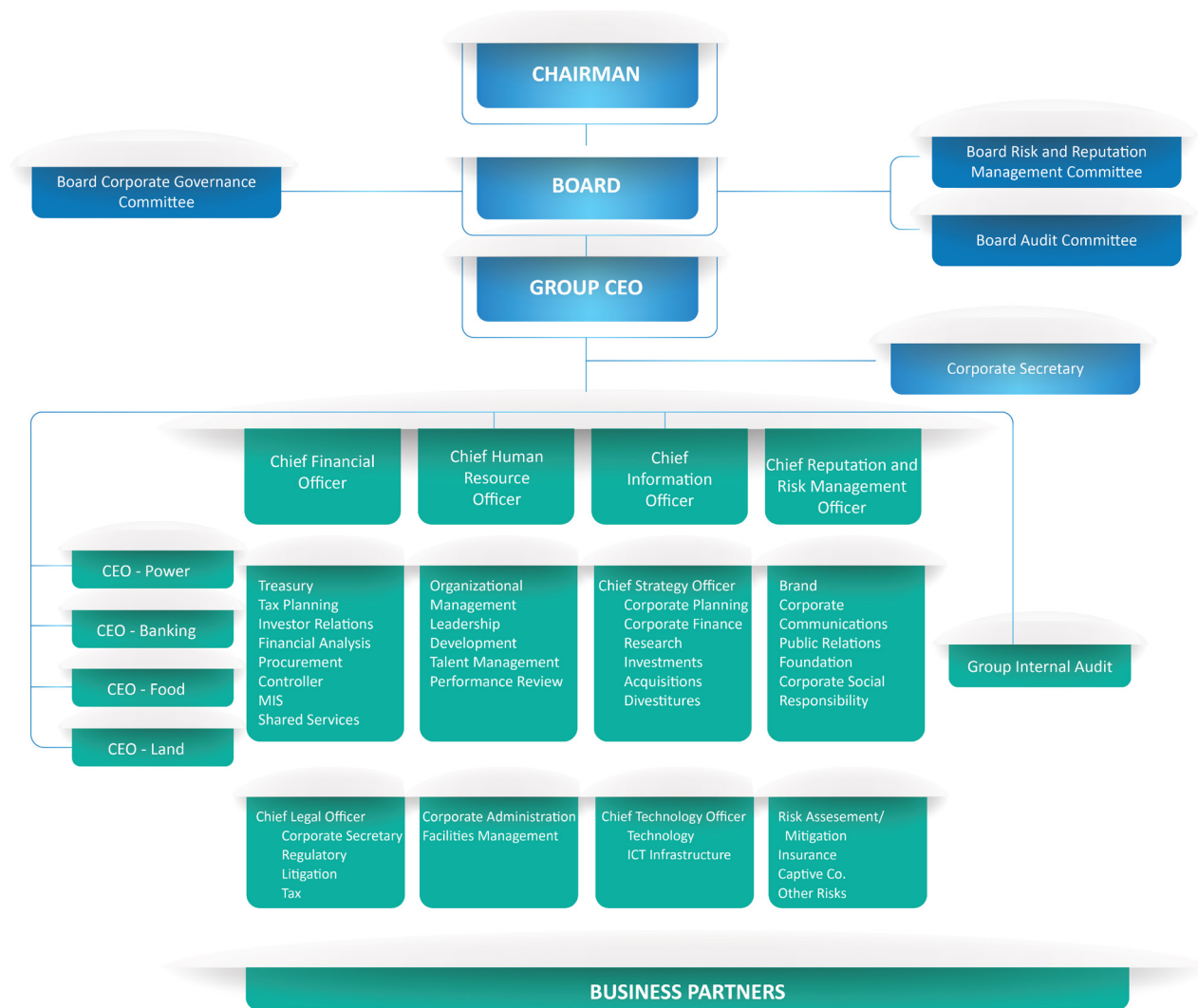
## ENTERPRISE RISK AND REPUTATION MANAGEMENT

With the re-launch of the Group Enterprise Risk Management program in 2012, the Company implemented enhancements and undertook initiatives to elevate risk management maturity Groupwide to Level 4. Level 4 represents the Group's goal of having Risk Management (RM) policies and practices consistently implemented across the Group by the end of 2013. Under Aon's Risk Maturity Index scale of 1 to 5, a Level 4 for the Company raises its maturity to Enterprise Resiliency. Its 2013 risk management initiatives included the quarterly consolidation of Strategic Risk Management Plan, implementation of the BUs' Operational Risk Management Plan and Business Continuity Plan (BCP).

In 2013, the Risk Management Team achieved several milestones, including the enhancement of the Risk Management Policy and Board Risk and Reputation Management Committee Charter, established risk tolerance thresholds at business unit level, and completed major risk management programs, such as Operational Risk Management, Group Insurance Renewal, Project Insurance Programs and Business Continuity Management. In addition, the Risk Management Team conducted the forum "Forging a Collaborative Alliance", a Joint Audit and Risk Management Forum attended by over 100 key leaders of the Company, including members of the Board, top management, auditors and risk managers. The Company's Risk Management Plan validation audits were completed in coordination with Group Internal Audit.

## ORGANIZATIONAL STRUCTURE

Below is the 2013 AboitizPower organizational structure delineating the responsibilities of the functional boards and teams that execute and oversee the Company’s strategies, goals, vision and mission.



The Company's core businesses, namely Generation and Distribution, are managed by separate functional management boards, namely, the AP Generation Companies Management Board and the AP Distribution Utilities Management Board. They are responsible for the alignment of strategies and strategy execution for each of the business units.

The Company's business units have their respective annual strategy planning sessions. These form an integral process of the Company's overall formulation and execution of AboitizPower's policies and strategies. These are presented to the Group CEOs and Group Mancom, cumulating in the annual AboitizPower Managerial Conference during which the Company strategy is presented to the Company-wide group of team leaders.

## BOARD RESPONSIBILITY

The Company believes that compliance with the principles of good governance begins with the Board of Directors. The Director's office is one of utmost trust and confidence. The Board of Directors is expected to act in the best interests of the Company in a manner characterized by transparency, accountability and fairness in the exercise of leadership in directing AboitizPower towards a sustainable growth. The Company's Board responsibility is a recurring cycle as shown below:



The Company's Board of Directors sets the standards for the Company's corporate governance practices. The Board of Directors is committed to the adoption and observance of best practices in corporate governance as well as compliance with all relevant laws, regulations and codes of business practice.



In 2013, the Board of Directors approved additional policies and protocols recommended by the Board Corporate Governance Committee as part of its commitment to continuously adopt evolving best practices. These Board Protocols include Policy on Information Disclosure, Policy on Related Party Transactions, Policy on Conflict of Interest, and Whistle Blowing Policy.

The Board is responsible for ensuring long term success of the Company and its sustained competitiveness in a manner consistent with its fiduciary responsibility. It exercises these duties for the best interests of AboitizPower, its shareholders and other stakeholders pursuant to the principles adopted in the Manual and applicable laws. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities. It shall provide an independent check on Management.

The Board is actively engaged in discussions of strategic business issues of the Company and the directors are consulted for their invaluable inputs through the special strategy board meetings, the informal director's lunches, dinners and gatherings with the management teams. The Board Corporate Governance Committee formalized these gatherings into an annual Board Retreat in an atmosphere of relaxed, open and intellectually exchange. The Board Retreat held on December 16, 2013 was well attended and participated by all members of the Board of Directors of the Company.

As part of its director development program and to ensure that the members of the Board remain up to date with business and legal developments, the Board is provided regular legal bulletins, and invited to economic and industry-specific briefings and strategy and management conferences within the Aboitiz group. All directors, including the Independent Directors, actively participate in these activities. The Board of Directors of the Company is likewise required to attend and participate in corporate governance seminars to further enhance their knowledge and capabilities.

## AN EFFECTIVE BOARD: SELECTION & COMPOSITION

For an effective Board, the Company takes serious consideration of the selection of Members of the Board. The selection is based on the following qualifications: (i) ownership of at least one (1) share of stock of AboitizPower in compliance with the Corporation Code of the Philippines; (ii) university education or sufficient experience in managing the business, in lieu of a college education, (iii) at least twenty one (21) years old; (iv) proven to possess integrity and probity; (v) no conflict of interest; (vi) able to devote his time in fulfilling his duties and responsibilities as Director; (vii) practical understanding of the businesses of the Company; (viii) membership in good standing in relevant industry, business or professional organizations; and (ix) previous business experience. Each member of the Board is identified and selected for the depth of experience and wisdom he is expected to provide to the Company, considering that the Company's business is a unique aggrupation of businesses, requiring the capability to understand power industry financials and technical matters.



The annual selection process is intended to appoint a diverse mix of highly competent directors and officers with in-depth knowledge and experience in the core industries of AboitizPower or corporate management, financial expertise, audit and governance experiences. Other factors considered are independent-mindedness, ethical behavior and value contribution of each director. The Company follows a formal and transparent board nomination and election process to ensure the interests of all shareholders. Any shareholder may nominate a director and Independent Director. Nominees for directors are submitted to the Corporate Governance Committee (to which the Nominations and Compensation Committee has been merged into). The overall procedure is in compliance with the Amended Implementing Rules and Regulations of the Securities Regulation Code.

A Board director holds office for one year until his successor is elected at the next Annual Shareholders' Meeting (ASM) in accordance with the Corporation Code of the Philippines, the Company's By-Laws and the SEC guidelines. Shareholders may nominate board members individually through the nominations process. At the ASM, and in accordance with the Corporation Code of the Philippines, the Company follows the rule of One-Share-One vote. Through this rule, any minority shareholder can influence the board composition through individual nomination and through the power of cumulative voting rights. The right to cumulative voting is a statutory right granted by the Corporation Code of the Philippines.

The roles and responsibilities of a member of the Board of Directors are clearly defined in the Company's Amended By-Laws and in the Manual. The main purpose of the Board, as expressly stated in the Manual, is to represent and protect the interests of the owners of the business, i.e., the internal shareholders, and all other key external stakeholders, regardless of category, in accordance with the Company's corporate charter and applicable laws. To ensure a clear distinction of the responsibilities in the management of the Company's business, the positions of the Company's Chairman and CEO are held separately by different individuals.

The AboitizPower Board recognizes that, for an effective corporate governance system, senior executives must constantly review and assimilate the principles of corporate governance consistently with the commitment of the Board of Directors. The Company's Directors, management, team leaders and team members are required to take the in-house corporate governance e-learning seminar mandated by the Board. In addition, all Directors, together with key officers of the Company, will also be enrolled in corporate governance seminars in compliance with SEC Memorandum Circular No. 20-2013, issued on December 6, 2013.

The Company is compliant with Section 38 of the Securities Regulation Code and Rule 38 of its Amended Implementing Rules requiring public companies to have independent directors constituting 20% of the total number of directors. As defined in the Securities Regulation Code, an independent director "is a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having a relationship with the corporation, which

would interfere with the exercise of independent judgment in carrying out the responsibilities of a director". The Company also adopted SEC Memorandum Circular No.9, Series of 2011, imposing term limits for Independent Directors aimed at enhancing the effectiveness of Independent Directors and at encouraging the infusion of fresh ideas to a Board of Directors. In compliance with the said Memorandum, the Board Corporate Governance Committee regularly monitors the tenure of the Company's Independent Directors.

The Independent Directors sit in no more than five boards of PLCs, as shown in the certification of affiliations required from each of the nominated Independent Directors submitted to the SEC. Likewise, executive directors do not generally sit on other boards of PLCs outside the Group, unless they have substantial interests in those PLCs or they have been asked to sit in the capacity as independent directors. The executive directors do not sit in more than two boards of listed companies outside the Aboitiz Group.

The Company's Independent Directors are independent from Management; are not encumbered with any management responsibility; and are free from any business or other relationship with the Company or any major/ substantial shareholders which could materially interfere with their exercise of independent unfettered judgment as members of the Board. More importantly, the Independent Directors chosen to the Company's Board are independently-minded professionals. There is nothing in the Company's By-Laws and in any shareholder agreements or arrangements that constrain the Independent Director's ability to vote independently.

At the 2013 ASM, shareholders elected the following Board members for the 2013-2014 term:

<b>BOARD OF DIRECTORS (2013-2014)</b>	
Enrique M. Aboitiz, Jr.	Chairman of the Board (Executive)
Jon Ramon Aboitiz	Vice Chairman (Non-Executive)
Erramon I. Aboitiz	Director (Executive)
Antonio R. Moraza	Director (Executive)
Mikel A. Aboitiz	Director (Non-Executive)
Jaime Jose Y. Aboitiz	Director (Executive)
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Alfonso A. Uy	Independent Director

The Company is committed to a gender, race and religion biased- free environment in its employee selection policy. The Company hires and promotes employees on the basis of competencies, credentials, and merit. While there is no incumbent female director currently sitting in the Board of the Company, a number of senior officers and Management Committee members are female.

All newly elected directors undergo a director's orientation program provided by independent service providers and other training programs that will enhance their understanding of roles and develop their technical knowledge to discharge their functions effectively. In addition, each new director undergoes an onboarding process.

Members of the Board annually assess the Board's, the CEO's and their own individual performance through a Board Assessment Review initiated by the Board Corporate Governance Committee. The Board Corporate Governance Committee regularly conducts the Board Self-Assessment Review and the CEO assessment. Results of the Board, Self and CEO Assessments are presented to the Board Corporate Governance Committee and circulated to the Board for their review and feedback.

To date, there have been no instances where non-executive directors resigned and raised issues of governance-related concerns. There have also been no major or minor corporate governance scandals that have affected the Company.

The Board meeting attendance of individual directors is reported to the Board Corporate Governance Committee by way of the Board Performance Report and to the SEC through the filing of the Certificate of Attendance. The attendance of the directors to the Company's board meetings in 2013 was exemplary with an overall percentage of 95.24% attendance record for the seven regular and special strategy meetings for 2013 for each director and 95.24% presence of directors per meetings.

Directors	Regular and Special Meetings 2013						
	31-Jan Regular	5-Mar Special	21-Mar Regular	20-May Regular	31-Jul Regular	26-Sept Regular	27-Nov Regular
Enrique M. Aboitiz Jr.	✓	✓	✓	✓	✓	✓	✓
Jon Ramon Aboitiz	✓	✓	✓	✓	✓	✓	✓
Erramon I. Aboitiz	✓	✓	✓	✓	✓	✓	✓
Antonio R. Moraza	✓	✓	✓	✓	✓	✓	✓
Mike A. Aboitiz	✓	✓	✓	✓	✓	✓	✓
Jaime Jose Y, Aboitiz	✓	✓	✓	✓	✓	✓	✓
Jose R. Facundo	✓	✓	✓	✗	✓	✓	✓
Romeo L. Bernardo	✓	✓	✓	✓	✓	✓	✓
Alfonso A. Uy (Appointed on May 20, 2013)	n/a	n/a	n/a	n/a	✓	✓	✓
<b>TOTAL NO. OF DIRECTORS PRESENT</b>	9	9	9	8	9	9	9

The non-executive directors of the Company met separately in 2013 for executive sessions to discuss concerns or feedback on performance of the Board and executive directors, without the presence of the CEO. The Independent Directors also discussed other Board related matters and concerns.

The Company's 2013-2014 Directors are well-respected individuals of proven competence, integrity and known to be independently-minded professionals. The Board is led by a Chairman who is very knowledgeable about the Company's core businesses, seasoned in corporate finance with an in-depth experience of the Aboitiz Group's commitment to corporate social responsibility. The Chairman ensures that the Board functions in an effective, robust and collegial manner. Although the Company's CEO and the Chairman of the Board are brothers, their decisions and dealings with each other are done in a professional manner and in keeping with an Aboitiz Family Constitution that sets strict standards for each member's work involvement in the Aboitiz Group of companies. *(See Section on Information on Directors and Officers)*

## BOARD REMUNERATION

The Board members' remuneration is a form of reward and recognition to attract, retain and optimize the directors who continually deliver quality services for the growth of the Company.

The Company rewards the individual directors and officers based on their stretched strategic goals and ability to execute their duties and responsibilities. AboitizPower's performance reward philosophy is based on objective performance. Performance is evaluated and compensation is reviewed on an annual basis. AboitizPower ensures that it pays its directors and officers competitively by comparing rates with other Philippine based companies through market salary surveys. Changes in Board compensation, if any, are recommended by the Board Corporate Governance Committee, approved by the Board and affirmed or voted on by the shareholders in a regular ASM. As approved by the shareholders during the ASM held last May 16, 2011, each director receives a monthly allowance of P100,000 for each member and P150,000 for the Chairman. Each director receives a per diem of P100,000 per board meeting attended except for the Chairman of the Board who receives a per diem of P150,000. In every board committee meeting attended, each director is entitled to a per diem of P80,000 except for the Chairman of the Committee who receives P100,000. There were no changes to the Board compensation recommended in 2012 and 2013 for shareholder approval. The remuneration package is in line with a 2012-2013 study benchmarking the market compensation for directors in the Philippines.

As mentioned, all proposed changes in Board remuneration are approved by the shareholders and disclosed to the public in a timely manner through PSE and SEC disclosures and the Company's Annual Report. The Company reviews Board remuneration by benchmarking against other Philippine PLCs. It participates in market surveys for benchmarking of board remuneration.

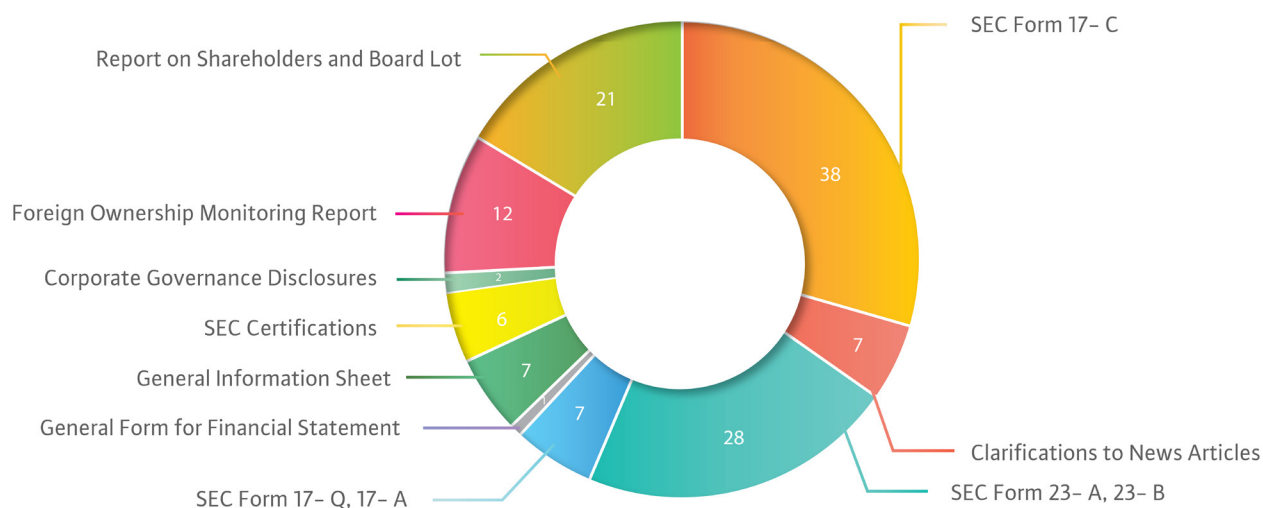
The non-executive directors do not receive options, performance shares or bonuses.

## PSE AND SEC COMPLIANCE REPORT

The Office of the Corporate Secretary and the Chief Compliance Officer regularly monitor the Company's compliance with the PSE and the SEC regulatory requirements. Below is the Company's PSE and SEC Reportorial Compliance Record. The PSE & SEC compliance reports are regularly presented to the Board Corporate Governance Committee for review and discussion.

The Company is fully compliant for the year 2013. There was no incidence where the Company has not complied with any listing rules and regulations over the past year.

## AboitizPower Compliance Report



The Company also disclosed to the SEC and the PSE its compliance with SEC Memorandum Circular No. 4, 2012, Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange last October 4, 2012.

## MONITORING AND CONTROL

The Board of Directors is fully compliant with the Company’s Manual for the year 2013. The Manual clearly defines the Board’s responsibilities and the corporate governance policy of the Company. The Board acknowledges that the attainment of corporate goals is by no small measure supported by the commitment to the principles of corporate governance. Proof of the Board’s strict adherence to the Manual on Corporate Governance is the Company’s clear record of compliance with SEC and PSE rules and regulations. The Manual was adopted with AboitizPower’s vision and mission of proactively working with customers to anticipate the unique and diverse range of industrial, commercial, and residential energy needs and to build customer intimacy because the Company believes that customers deserve no less than the best service it can possibly give.

To continuously keep itself up-to-date with current best practices, the Company regularly reviews and updates its Manual. The Board approved an amendment of the Corporate Governance Manual on August 3, 2012 to update the Company’s corporate governance practices and the Manual is regularly reviewed against SEC requirements. The Manual designates a Chief

Compliance Officer; defines his duties as well as outlines a Plan of Compliance revolving around the Board of Directors, its composition, qualifications, roles and responsibilities, the delineation of the roles of the Chairman and the CEO, conflict of interest and business interest disclosures, Board meeting quorum requirements, and adequate and timely information and accountability of audits. The Board committees provide quality assurance that the Board functions are fulfilled.

The Company's Manual also specifies the composition and duties of the newly-created and restructured board committees, the qualifications of the Corporate Secretary, an information security management policy, a sustainability policy, a risk management policy, communication process and training process, reportorial or disclosure system of the Company's corporate policies, shareholders' benefit statement and a monitoring and assessment system. The Chief Compliance Officer coordinates with the regulatory officers of the Company's business units to ensure compliance with other laws as well as to ensure the checks and balances and mitigating penalty measures are imposed.

The Company's Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities through management of a Board Secretariat, through inputs to the agenda, review of reports and PSE and SEC compliance, through an oversight of investor concerns, oversight of stock and transfer agent, and active participation at Board meetings. The current Corporate Secretary is a member in good standing of the Philippines and New York State Bar and alumni of the Institute of Corporate Directors and Professional Directors' Program. The Assistant Corporate Secretary and the lawyers of the Board Secretariat are lawyers and accountants and are also alumni of the ICD Professional Directors' Program.

## BOARD COMMITTEES

The Company's Board Committees consist of the following: Board Audit Committee, Board Risk and Reputation Management Committee, and the Board Corporate Governance Committee.

Members of the Board Committees are the duly elected directors of the Company's Board of Directors as regular members and are assisted by key officers of the Company on ex-officio basis. These Board Committees hold meetings at least every quarter to ensure that sound strategies for the Company's development are reviewed, monitored, executed and achieved.

The Board decided at its May 17, 2010 meeting to amend the Manual and have the functions of the Board Strategy Committee subsumed under the scope of functions of the full Board membership. As a result, the Board regularly holds a special strategy Board meeting in addition to the strategy sessions at regular board meetings and the informal strategy meetings of the Directors.



The Board folded in the Board Nominations and Compensation Committee into the Board Corporate Governance Committee. On February 1, 2012, the Board Corporate Governance Committee endorsed the creation of an expanded Board Risk Management Committee into a Board Risk and Reputation Management Committee. Membership of Independent Directors to both Board Corporate Governance Committee and Board Risk and Reputation Committee was recently increased. Independent Directors now comprise 60% of the voting members of the Board Corporate Governance Committee, 60% for the Board Audit Committee and 25% for the Board Risk and Reputation Management Committee.

## BOARD CORPORATE GOVERNANCE COMMITTEE

The Board's ability to make decisions with governance impact is supported by the work of the Board Corporate Governance Committee. The Board Corporate Governance Committee provides information and recommendations necessary for making good governance decisions.

The Board Corporate Governance Committee assists the Board but does not pre-empt any board responsibilities in making final decisions on corporate governance, nomination and compensation matters.

In performing its duties, the Board Corporate Governance Committee maintains effective working relationships with the Board and the Group's senior leadership to enable it to perform its role effectively. Each Committee member strives to obtain an understanding of the detailed responsibilities of Committee members as well as the Group's businesses and operating environment.

The Committee is expected to contribute to the management of the Group's affairs through good governance practices for the overall interests of the stakeholders.

The Board Corporate Governance Committee formulates policies, guidance in selecting nominees for the Board of Directors, among others in a coordinated way. In performing its duties, the Committee maintains an effective working relationship with the Board of Directors.

The Committee is composed of a majority of Independent Directors (three out of five directors). The Chairman of the Committee is a non-executive director and brings with him his past valuable experience and expertise in the major businesses of the Company, having served as its Chairman of the Board from 1998 to 2008.



The Board Corporate Governance Committee is currently composed of the following:

BOARD CORPORATE GOVERNANCE COMMITTEE	
Jon Ramon Aboitiz	Chairman
Erramon I. Aboitiz	Director
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Alfonso A. Uy *	Independent Director
M. Jasmine S. Oporto	Ex-Officio Member, Chief Compliance Officer
Xavier J. Aboitiz	Ex-Officio Member, Chief Human Resources Officer

*\* Mr. Jakob G. Disch served as a Member of the Board Corporate Governance Committee from May 21, 2012 to May 20, 2013. He was replaced by Mr. Alfonso A. Uy who was elected to the Board on May 20, 2013.*

The resolutions of the Board Corporate Governance Committee can only be approved with the vote of at least one Independent Director.

The Company accesses all available resources for the selection of Directors, whether through professional search firms or other external sources of candidates.

The Board Corporate Governance Committee tackled the following agenda items in 2013:

Date	Type of Meeting	Matters Discussed
January 30, 2013	Regular Meeting	Shareholder Relations updates Nominees for the Board of Directors Proposed Agenda for the 2013 Annual Stockholders' Meeting Timeline for the Preparation and Proposed Content of the Information Statement for the 2013 Annual Stockholders' Meeting/2012 Annual Report Proposed Corporate Governance Report for the Annual Report Investor Relations Updates

May 9, 2013	Regular Meeting	<ul style="list-style-type: none"> <li>Corporate Governance Scorecards Updates</li> <li>Regulatory Updates – Securities and Exchange Commission</li> <li>Regulatory Updates – Philippine Stock Exchange</li> <li>Tax Updates</li> <li>Updates on the 2013 Cash Dividend Distribution</li> <li>Investor Relations Updates</li> </ul>
August 30, 2013	Regular Meeting	<ul style="list-style-type: none"> <li>Corporate Governance Scorecards Updates</li> <li>Regulatory Updates – Securities and Exchange Commission, Philippine Stock Exchange, Bureau of Internal Revenue</li> <li>Taguig Boundary Dispute</li> <li>Updates on New Company Policies</li> <li>Board Assessment</li> <li>Investor Relations Updates</li> </ul>
November 10, 2013	Regular Meeting	<ul style="list-style-type: none"> <li>Updates on the Company’s latest Corporate Social Responsibility Activities</li> <li>Updates on the Company’s New Corporate Governance Website</li> <li>Updates on Corporate Governance Scorecards and Practices</li> <li>Review of Any SEC/PSE Violations or Request for Clarification</li> <li>Regulatory Updates</li> <li>Investor Relations Updates</li> </ul>

Attendance record of members of the Board Corporate Governance Committee has been very good. Individual directors’ percentage record of attendances at meetings of the Committee and overall percentage of directors present at those meetings was at 100%, as shown below:

Members	30-Jan Regular	9-May Regular	30-Aug Regular	14-Nov Regular	Total no. of Meetings attended by each Member	Percentage of Meetings attended by each Member
Jon Ramon Aboitiz	✓	✓	✓	✓	4/4	100%
Roberto E. Aboitiz	✓	✓	✓	✓	4/4	50%
Jose R. Facundo	✓	✓	✓	✓	4/4	100%
Romeo L. Bernardo	✓	✓	✓	✓	4/4	100%
Jakob G. Disch (Member until May 20, 2013)	✓	✓	n/a	n/a	2/2	100%
Alfonso A. Uy (Member appointed on May 20, 2013)	n/a	n/a	✓	✓	2/2	100%
M. Jasmine S. Oporto (Ex-officio Member)	✓	✓	✓	✓	4/4	100%
Xavier Jose Aboitiz (Ex-officio Member)	✓	✓	✓	✓	4/4	100%
TOTAL NO. OF MEMBERS PRESENT IN EACH MEETING	7	7	7	7		
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100%	100%	100%	100%		100%

The annual performance assessments of the CEO, the individual members of the Board, and the Board of Directors as a body are conducted by the Board Corporate Governance Committee. The attendance of directors at Board meetings is reported to the Board Corporate Governance Committee through the Board Performance Report and the Certificate of Attendance. In 2013, pursuant to SEC Memorandum Circular 1-2014, the Company updated its Annual Corporate Governance Report in its corporate governance website to reflect the attendance of the members of the Board of Directors in meetings conducted for the year 2013.

The Office of the Corporate Secretary and Chief Compliance Officer, pursuant to the mandate of the Board Corporate Governance Committee, implemented the current written policies and procedures designed to ensure compliance with the PSE and SEC disclosure rules, as well as other disclosure requirements under existing laws and regulations. These policies provide procedures and timelines for the disclosure of: material contracts, agreements and events that may impact on the control, ownership, and strategic direction of the Company, director and executive compensation policy, disclosures of groups or individuals who hold five percent (5%) or more ownership interest in the Company, significant cross-shareholding relationship and cross guarantees, as well as the nature and scope of the Company's ownership in other entities,

annual and quarterly consolidated reports, cash flow statements and special audit revisions, consolidated financial statements and interim reports, changes to its corporate governance manual and practices, information necessary for shareholders decision making, trading of Company shares by directors, officers and controlling shareholders, annual reports, and any material event or information.

## BOARD RISK AND REPUTATION MANAGEMENT COMMITTEE

The Board is committed to establishing a fully functioning enterprise risk management system for the Company and its businesses. The Board oversees the Company's risk management functions through the Board Risk and Reputation Management Committee. The Board has adopted a formal risk management policy to guide and direct the Company's risk management and compliance processes and procedures.

The Board Risk and Reputation Management Committee represents the Board in discharging its responsibility relating to all risk management related matters across the Aboitiz group companies. Among many tasks, the Committee considers and reviews operational risks, environmental risks, financial asset risks, security risks, and any other form of risk as approved by the Board, with the objective of assessing exposures and strategies, and recommending actions to mitigate these risks.

The Board Risk and Reputation Management Committee primarily assists the Board, and to some extent the Board Audit Committee, in fulfilling the corporate governance responsibilities relating to risk management and brand reputation. The Board Risk and Reputation Management Committee assists in defining the Company's risk appetite and tolerance levels and oversees the risk profile and performance against the defined risk appetite. It is also responsible for overseeing the identification, measurement, monitoring and controlling of the Company's principal business risks. With respect to reputation management, the Committee likewise oversees reputational risks and provides guidance to management in corporate branding and communication strategies.

The Board Risk and Reputation Management Committee oversees the Company's Enterprise Risk Management (ERM) initiatives. The Company's ERM pillars are Risk Management Governance, Process and Integration, Risk Finance and Capability Building.

The Board Risk & Reputation Management Committee is composed of four directors, one of whom is independent, as well as two non-voting members in the persons of the Chief Financial Officer (CFO) and the Chief Risk and Reputation Management Officer.

The Board Risk and Reputation Management Committee is currently composed of the following:

BOARD RISK AND REPUTATION MANAGEMENT COMMITTEE	
Enrique M. Aboitiz, Jr.	Chairman
Erramon I. Aboitiz	Director
Jose R. Facundo	Independent Director
Alfonso A. Uy*	Independent Director
Iker M. Aboitiz	Ex-Officio Member- Chief Financial Officer
Susan V. Valdez	Ex-Officio Member- Chief Risk Management Officer

*\* Mr. Jakob G. Disch served as a Member of the Board Corporate Governance Committee from May 21, 2012 to May 20, 2013. He was replaced by Mr. Alfonso A. Uy who was elected to the Board on May 20, 2013.*

In its 2013 meetings, the Board Risk and Reputation Management Committee reviewed, discussed, updated and approved the following matters:

Date	Type of Meeting	Matters Discussed
January 30, 2013	Regular Meeting	Risk Finance Updates Project Risk Management Presentation Aboitiz Foundation CSR Report
April 24, 2013	Regular Meeting	Risk Maturity Index (RMI) Update Risk Finance Updates Integration Updates – ISMS, Internal
August 24, 2013	Joint Meeting with Audit Committee	RMP Validation review results Alignment of Vulnerability Scoring of Audit and RM for Board Reporting Purposes AEV and AP Risk Maturity Index Results
August 30, 2013	Regular Meeting	Risk Finance Updates Operational Risk Management and Business Continuity Management Updates Social Media Policy
October 10, 2013	Regular Meeting	Risk Finance Updates Project Risk Updates Risk Management Policy Updates Reputation Council Deliverables Update

Attendance record of members of the Board Risk and Reputation Management Committee has been consistently good. Individual directors' percentage record of attendance was 90% and 87% for AEV and AP respectively. While overall percentage of directors present at said meetings was 90% and 87% for AEV and AP respectively.

Director's Attendance AP Risk and Reputation Management Committee	2013 Board Meetings					Individual attendance		
	30- Jan	24- Apr	30- Aug R&R	30-Aug Joint with Audit	10- Oct	Attended	Total	Percentage
Enrique M. Aboitiz, Jr.	✓	✓	✓	✓	✓	5	5	100%
Erramon I. Aboitiz	✓	✓	✓	✓	✓	5	5	100%
Jose R. Facundo	✓	✓	✓	✓	✓	5	5	100%
Jakob Disch	✓	✗	n/a	n/a	n/a	1	2	50%
Alfonso Uy	n/a	n/a	✓	✓	✓	3	3	100%
Iker M. Aboitiz	✓	✓	✗	✗	✗	2	5	40%
Susan V. Valdez	✓	✓	✓	✓	✓	5	5	100%
	100%	83%	83%	83%	83%	26	30	87%

The Board Risk and Reputation Management Committee's initiatives for 2011-2012 include the following key processes: creation and activation of the Risk and Reputation Councils, assistance to the BUs in formulating their top risks, assessment of the Risk Maturity Index and Plan of the Group, formulation of financial limits of identified risks for the Group and revision to the Board Risk and Reputation Management Charter.

Risk Oversight responsibilities are all set in the Manual. All internal controls procedures are incorporated in the policies of the revised Board Risk and Reputation Management Charter.

The Company discloses its internal control procedures and risk management systems through the Risk Management Report of its Chief Risk and Reputation Management Officer in the Annual Report. The report assesses the Company's material controls and risk management systems, key Group risk management developments, and a discussion of Group top risks.

## BOARD AUDIT COMMITTEE

The Company has a well-entrenched internal audit group, the Group Internal Audit, which is overseen by the Board through the Board Audit Committee. The Board Audit Committee represents the Board in its oversight responsibility over all audit-related matters of the



Company's group companies. It oversees the optimization of effective financial management, as well as compliance with regulatory reporting requirements for all BUs.

The Board Audit Committee oversees the function of the Group Internal Audit in maintaining a comprehensive enterprise-wide compliance program and a robust institutionalized quality service platform for the Company's internal audit functions that are annually reviewed. The Board Audit Committee, in conjunction with the Group Internal Audit, performs the following functions: reviews and approves non-audit services conducted by the external auditor and corresponding fees, assesses and recommends the external auditor on behalf of the Board to ensure a selection of credible, competent external auditor with the ability to understand the complexity of the entire range of the transactions of the Company, provides the Board with adequate and relevant information on the external auditors for a fair and transparent selection or tender process, and schedules regular meetings and dialogues with the external audit team (with and without management teams present). The Company's CFO, when invited by the Board Audit Committee, attends the meetings of the Board Audit Committee (a) to ensure immediate clarification and feedback of audit issues to the Board Audit Committee, and (b) to give prompt instructions to the Company of any policy that the Board Audit Committee proposes to implement.

Existing corporate audit policies require that the financial reports are attested to by the CEO and CFO and that a sound internal audit, control and compliance system is in place and working effectively in the Company. The Company follows the policy of rotating its lead external audit partner of every five years.

The Group Internal Audit ensures that existing Company mechanisms allow all stakeholders to raise valid audit issues to the Board Audit Committee. The Company's internal audit team, together with AEV Corporate Center, is working on an ISO 9001:2008 QMS certification to further raise the quality of internal audit services of the Company to itself and to all BUs.

The Board Audit Committee's executive decision-making authority is limited to the circumstances listed in the Manual and its Audit Charter and to such delegated authority issued by the Board. By defined policy, the Board Audit Committee recommends to the Board of Directors the choice of external auditor and pre-approves audit plans and the scope and frequency of audits before an audit is actually conducted. Services of external auditors for the past five years were approved by the Board Audit Committee. The Board Audit Committee also reviews the extent and nature of these services to ensure that the independence of the external auditors, are preserved.

The Board Audit Committee is composed of at least three directors. Currently, three Independent Directors sit in the Committee. The Chairman of the Board Audit Committee is an Independent Director.

Each member, generally with accounting and finance backgrounds, has adequate understanding,



familiarity and competence on most of the Company’s financial management systems and environment.

For 2013-2014, the Board Audit Committee membership is as follows:

BOARD AUDIT COMMITTEE	
Jose R. Facundo	Chairman, Independent Director
Romeo L. Bernardo	Independent Director
Alfonso A. Uy*	Independent Director
Mikel A. Aboitiz	Director
Jaime Joes Y. Aboitiz	Director

*\* Mr. Jakob G. Disch served as a Member of the Board Corporate Governance Committee from May 21, 2012 to May 20, 2013. He was replaced by Mr. Alfonso A. Uy who was elected to the Board on May 20, 2013.*

Below are the highlights for the Board Audit Committee work for the year 2013:

Date	Type of Meeting	Matters Discussed
March 1, 2013	Regular Meeting	SGV Presentation of Audit Results for Financial Year 2012 Year-to-date (YTD) 2012 Financials Presentation of Group Internal Audit Overall Opinion 2013 Statement of Independence Audit Highlights 2013 Audit Plans and Deliverables Board Audit Committee Self-Assessment for 2013

May 2, 2013	Regular Meeting	AEV YTD March 2013 Financials Presentation of Group Internal Audit
August 30, 2013	Regular Meeting	Appointment of External Auditor for 2013 AEV YTD June 2013 Financials Presentation of Group Internal Audit a. Proposed Alignment of Audit and Risk Vulnerability Measures b. Audit Highlights of Completed Engagements
August 30, 2013	Joint with Board Risk and Reputation Management Committee	SGV Audit Plan for 2013 AEV YTD Sept 2013 Financials Presentation of Group Internal Audit a. Audit Highlights of Completed Engagements b. Review of Internal Audit Charter c. Master plan for 2014
October 29, 2013	Regular Meeting	Summary of Risk Management Plan (RMP) Validation Review Alignment of Vulnerability Storing of Audit and Risk Management for Board Reporting Purposes AEV and AP Risk Maturity Index Results

For 2013, the Company has not received any sanctions from regulators on financial reports nor has it received any qualified, adverse and disclaimer opinions on its external audit report. The Board Audit Committee also reported to the Board on the adequacy of the Company’s current internal controls.

Attendance record in meetings by members of the Board Audit Committee has been good. Individual directors’ record of attendance at meetings of the Committee has been 96.67% and overall percentage of directors present at said meetings has been 96% as can be seen below.

	March 1, 2013 (Audit)	May 2, 2013 (Audit)	August 30, 2013 (Audit)	August 30, 2013 (Joint)	October 29, 2013 (Audit)	Total No. of Meetings Attended	% of Meetings Attended
Jose R. Facundo	✓	✓	✓	✓	✓	5/5	100%
Romeo L. Bernardo	✓	✓	✓	✓	✓	5/5	100%
Jakob G. Disch	✓	✓	n/a	n/a	n/a	2/2	100%
Alfonso A. Uy	n/a	n/a	✓	✓	✓	3/3	100%
Mikel A. Aboitiz (Ex-officio Member)	✓	✓	✓	✓	✓	5/5	80%
Jaime Jose Y. Aboitiz (Ex-officio Member)	✓	✓	✓	✓	✗	4/5	
							96.67%
Total No. of Directors Present in each Meeting	5	5	5	5	4	96%	
% of No. of Directors Present in each Meeting	100%	100%	100%	100%	80%		

The Board Audit Committee Self-Assessment for 2013 showed exemplary compliance to the standards required of a Board Audit Committee under the SEC Revised Code of Corporate Governance. In compliance with SEC Memorandum Circular No. 4: Guidelines for the Assessment of the Performance of Audit Committees of PLCs, the Board Audit Committee and the Board of Directors approved the Amended Board Audit Committee Charter, on August 2, 2012 and September 27, 2012, respectively. The Company also disclosed to the PSE and SEC, the SEC FORM 17-C in compliance with the SEC Memorandum Circular No. 4 last October 4, 2012.

The role of the Board Audit Committee is important because it ensures that local investors and global capital markets rely on quality financial statements. The Board Audit Committee approves and submits accurate and transparent financial disclosures and observes adequate risk controls.

The Board Audit Committee Charter contains its purpose, membership, structure, operations, reporting procedures, resources, assessment of the members of the committee and other relevant information.

As reported by the Chairman of the Board Audit Committee in the Annual Report, the Company's internal controls are adequate and the basic control assertions of reliability and integrity have been satisfactorily complied with. Standardization and alignment of processes across the Group have also been satisfactorily addressed throughout 2013.

## OTHER COMPANY COMMITTEE & GROUP INITIATIVES

Aside from the Board Committees established under the Manual, the Company has other policy recommendatory and evaluation committees, such as, but not limited to, the AP Generation

Companies Management Board and the AP Distribution Utilities Management Board. Furthermore, the Company is an active participant in the AEV Corporate Center's the Human Resources Committee, the Legal Executive Committee (LexCom), Finance Committee, and the Government Relations Committee, among others.

Since power generation and power distribution comprise the core businesses of the Company, the functional boards, namely AP Generation Companies Management Board and AP Distribution Utilities Management Board, provide the alignment, monitoring and execution of the Company's business strategies and that of its business units. These functional management boards meet every month to discuss financial operations, marketing and sales development, and basic general operational issues concerning the business units.

The LexCom is one of the Aboitiz Group's institutional venue enabling members of the Legal & Corporate Services Team to meet with the executive management to discuss legal issues and concerns that affect the group. It is overseen by the Chief Financial Officer (CFO) of AEV and managed by the Chief Legal Officer of the Aboitiz Group. The Company is provided support of legal risk management through the monitoring by the LexCom. The Company allows the LexCom to have a degree of oversight over the Company's compliance with laws and regulations and contractual obligations. AEV's Chief Human Resources Officer, together with the Company's Chief Financial Officer, the legal team of the Legal and Corporate Services, and the regulatory and legal team of AboitizPower's business units participate in the LexCom meetings or in its extended Business Partnership meetings. The members of the LexCom report, discuss and assess corporate governance compliance track record, identification and mitigation of legal risks, review of litigation management procedures, tax protocols, current litigation issues and other related matters affecting the companies and its business units, including overall legal expenditure of the Company's business units.

The LexCom meets every two months to regularly update management on ongoing projects or activities handled by the Legal and Corporate Services Team. The purpose of these meetings is to provide Executive Management with up to date and relevant legal developments affecting the businesses of the Company. The LexCom also reviews if there are any requests for waivers or exemptions of company governance rules. The LexCom supports the Company's efforts in maintaining ethical and proper conduct of Company personnel.

The LexCom assists the Human Resources team in setting the policies and procedures for curbing and penalizing company or employee involvement in unethical behavior, such as offering, paying and receiving inappropriate rewards or benefits.

The Office of the Chief Legal Officer is responsible for ensuring compliance by the Company and its business units, with all relevant laws and regulatory requirements, including the protection and respect for intellectual property rights. The LexCom is responsible for the comprehensive legal compliance program of the Company. As part of its program, the LexCom and the Office

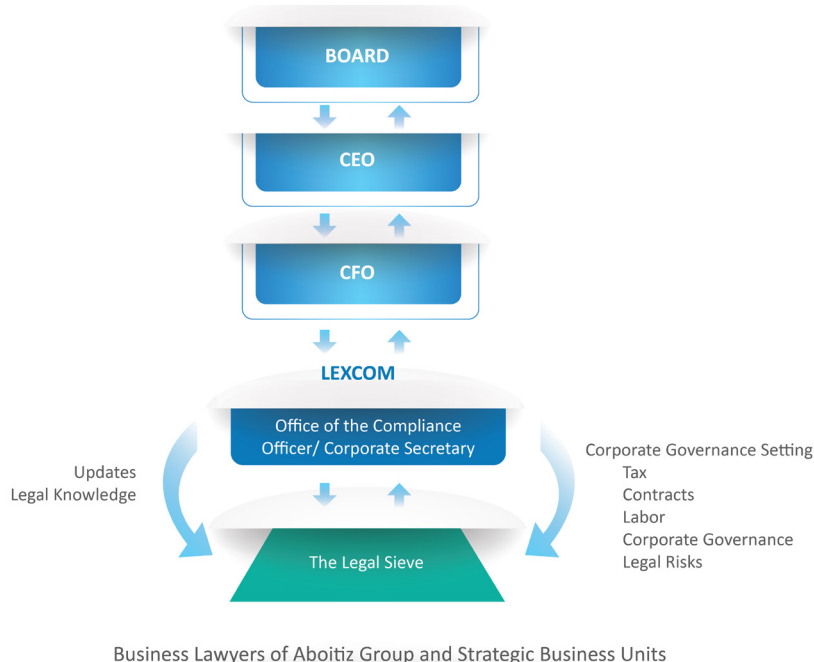
of the Chief Legal Officer oversee the appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances by the employees and the business units.

The Company has a regulatory compliance team that handles compliance issues for the Company, especially with the DOE and ERC. The Company also has a Government Relations Committee composed of senior management and certain members of the Board, having oversight over the Company’s legislative and administrative concerns and issues.

The LexCom also reviews or recommends the appropriate dispute resolution system for conflicts and differences with counterparties, particularly with shareholders and other key stakeholders to ensure that they are settled in a fair and expeditious manner from the application of a law, rule or regulation especially when it refers to a corporate governance issue. The Office of the Chief Legal Officer explains the rationale for any such action as well present the specific steps being taken to finally comply with the applicable law, rule or regulation.

The LexCom also serves as an additional whistleblowing forum, in addition to the CEO’s and that of the Board Corporate Governance Committee oversight. Any complaint of whistleblowers are encouraged, reviewed, investigated and reported to the CEO or the Chairman, and reported at the Lexcom for discussion and appropriate action.

The LexCom Functional and Strategic Structure below shows the two way flow of information of legal issues from the BUs to the Board and the forum for addressing legal and corporate governance issues.



## BOARD MEETINGS

The Company, through its Board Secretariat, follows well-defined processes and protocols for Board meetings. One such practice of the Board Secretariat is to ensure that Board materials are provided to the Board at least five calendar days prior to the actual date of the board meeting.

The Board Secretariat has recently adopted the use of Diligent Boardbooks technology and platform for other companies within the AboitizPower Group to improve in their respective Boards' work. The Boardbook is a brand portal that looks and functions like a book of all Board materials in an iPad or laptop and completely paperless and portable. The application is used by the Board of Directors and its Committees during their actual meetings. This application has helped improve governance through an easier and timely communications tool for the Directors and allows easy and portable access of current and historic Company information. The application is also in line with the Company's sustainability efforts to reduce the unnecessary usage of paper.

## THE RIGHT OF SHAREHOLDERS

### *Effective Exercise Of Shareholders' Rights*

The Company ensures the genuine exercise of shareholders' rights as granted by the Corporation Code of the Philippines, by other related laws, and by its corporate covenants under the Company's By-Laws and the Company's Manual.

Foremost among corporate governance principles established by your Company is its assurance that shareholders enjoy all the rights granted by the Corporation Code of the Philippines. The Board and management team ensure the promotion of these rights and have been mandated to institute remedial measures to swiftly address any violation or transgressions.

The Company is not involved in any legal proceedings for violations pertaining to labor and employment, insolvency, commercial, unfair competition or environmental issues.

The Company has not been charged with any sanctions for failure to make timely disclosures of material information. Shareholders continue to have access to relevant, sufficient and reliable information on a timely and regular basis through its PSE and SEC disclosures.

### *One-Share - One-Vote*

The exercise of a shareholder's voting right is encouraged by the Company to ensure meaningful participation in all shareholders' meetings. The Board is directed to remove excessive costs and



other administrative or practical impediments to a shareholder's right to vote. The counting of shareholders' votes is done in accordance with the general provisions of the Corporation Code and the Company's internal procedures. The Office of the Corporate Secretary supervises the counting of votes through an electronic platform.

Voting methods and vote-counting systems employed by the Company are clearly explained to ensure the effective exercise of shareholders' right to vote. The Company follows the system of cumulative voting for the election of directors, to allow shareholders an opportunity to elect each member of the Board of Directors individually. Other matters are also decided through voting by shares of stock. The Company adheres to the one-share-one-vote policy for the same class of shares. Proxy voting is allowed at all meetings and is facilitated through proxy voting forms. In its regular board meeting last November 12, 2010, the Board of Directors of the Company approved the deletion of the notarization requirement of proxy forms to be used in all shareholders' meetings of the Company. This is to facilitate easy voting by shareholders, in line with the Company's efforts to improve corporate governance practices. As such, the amendment of the Company's By-laws to remove the notarization requirement, while approved by the Board, will also be presented to the shareholders for their information and better understanding. At the ASM, the Company engages an independent third party to assist in the validation of proxy and the counting of votes.

#### *Pre-emptive Rights*

Pre-emptive rights to subscribe to the capital stock of the Company, if offered, are also available pursuant to the Company's Corporation Code. The Company's Articles of Incorporation states the specific rights and powers with respect to each class of shares. Such rights and powers are protected insofar as they do not conflict with the Corporation Code.

The Company adopts the policy of statutory shareholder voter protection requirements of the Corporation Code of the Philippines and the rules of the PSE which require either supermajority vote or majority of minority vote on certain transactions.

The Company consistently provides all shareholders with the notice and agenda of the annual general meeting at least 30 days before a regular meeting and 20 days before a special meeting. The Company also publishes Notices of Shareholders' Meetings in national newspapers of general circulation. Under the Company's By-Laws, shareholders may call a special shareholders' meeting, submit a proposal for consideration at the annual general membership or the special meeting. The Company makes it a point that the external auditor and other relevant individuals attend the annual shareholders' meetings to answer shareholder questions in such meetings. The office of the Corporate Secretary ensures that all relevant questions during the annual shareholders' meetings are answered and recorded.

The Company has clear and enforceable policies with respect to treatment of minority



shareholders. Compliance with the Corporation Code ensures shareholder against anti-takeover maneuvers or similar devices that may entrench management or the existing controlling shareholder group to avoid shareholder opportunism, and provides all shareholders with accurate and timely information regarding the number of shares of all classes held by controlling shareholders and their affiliates.

The Company recognizes other ownership rights beyond voting. In addition to the right to vote, the Company's shareholders have the right to: inspect the corporate books and records, be furnished annual reports and financial statements without costs and restrictions, access to information, receive dividends in accordance with the Company's dividend policy, and to exercise its appraisal right. When applicable, the Company commits to follow the mandatory tender offer requirements under the Securities Regulation Code.

#### *Right to Inspect Corporate Books and Records*

The Company recognizes the shareholders statutory right to access certain Company information and records. Shareholders enjoy the right to inspect corporate books and records, including minutes of Board and Stockholders' meetings and the stock and transfer registry records affecting their shares, upon reasonable request made to the Office of the Corporate Secretary. The Office of the Corporate Secretary ensures that all minutes of annual and special meetings of shareholders clearly and satisfactorily reflect all matters taken up at these meetings. The issues and motions raised, agreements arrived at during the meetings and corporate acts approved or disapproved are concisely reported. Resolutions and corporate acts approved or disapproved by the shareholders or Board of Directors are accurately recorded in the minutes. The Corporate Secretary dutifully records the minutes of the meetings and notes the attendance of the members of the Board of Directors and other key officers, who are identified at meetings.

#### *Right to Information on the Corporation*

Pursuant to the corporate governance principle of disclosure and transparency, information on the Company is made readily available. The Company provides shareholders with periodic reports that include information about the Board of Directors and key officers, including relevant professional information on the Directors and Officers, their shareholdings and dealings with the Company and their aggregate compensation.

The Investor Relations Officer and the Office of the Corporate Secretary have an established communications strategy and protocols to promote effective communication and liaison with shareholders.

Annual reports and financial statements of the Company may be secured without cost or restrictions.

All of these information are also available on the Company's website.

#### *Right to Participate in Shareholders' Meetings*

The Company strives to maintain a transparent and fair conduct of its annual and special shareholders' meetings and ensures that accurate and timely information are available to the shareholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The Annual Report, distributed prior to and during the annual stockholders meeting and available from the Company's website, includes the highlights and summary of the financial condition of the Company. The Information Statement filed with the SEC is prepared with the objective of providing full and accurate information enabling stakeholders to make informed decisions. Shareholders are provided with individual profiles of new and returning directors, as well as a summary of the Board meeting attendance and performance record of its directors.

The Company's policy on directors' compensation is disclosed to shareholders and to the public and proposed directors' compensation is always presented for shareholder approval at the ASM.

Sycip Gorres Velayo & Co. (SGV), has been the Company's external auditing firm for the last 14 years. By policy, the Company changes its audit partner every five years. The Company complies with the requirements of Section 3(b)(ix) of SRC Rule 68 on the rotation of external auditors or signing partners and the two-year cooling off period. SGV attends all ASMs of the Company.

Information on SGV, the Company's external auditor, is also disclosed to all shareholders, together with the name of the current audit partner and the engagement fees charged by SGV.

#### *Attendance at Annual Shareholders' Meeting (ASM)*

The Chairman of the Board of Directors, the CEO, the Chairmen of the Board Committees, and the Company Corporate Secretary all attend the annual shareholders' meeting of the Company to answer any questions shareholders may have concerning the Company. Likewise, the Chairman and all members of the Board of Directors, other key officers and the Company's auditors are present at the shareholders' meeting and have been present at the past three annual ASMs. Questions from shareholders are solicited and encouraged by the President and CEO of the Company.

#### *Voting Procedures and Voting Results*

All shareholders are given the right to nominate individually the members of the Board.

Nominations for members of the Board of Directors are received by the Corporate Secretary in accordance with the Company's By-Laws and Guidelines for the Nomination and Election of Independent Directors. The rules and procedure for nomination are clearly set out in the Company's Definitive Information Statement, Annual Report, Guidelines for the Nomination and Election of Independent Directors, and these information are readily accessible through the Company's website.

The voting methods and vote-counting systems employed by the Company during every stockholders meeting are clearly explained to shareholders to ensure the effective exercise of shareholders' right to vote.

Proxy voting is allowed in all meetings and is facilitated through proxy voting forms attached to the notice to the meeting distributed to all shareholders. In keeping with best practices, such proxies are not required to be notarized.

Voting during the ASM is done by poll, under the supervision of the Company's Corporate Secretary and Stock and Transfer Agent and validated by the independent third party engaged specifically for that purpose. The Board Secretariat uses an electronic platform to record the votes.

The Company has no merger or acquisition cases at present. However, in the event of mergers/acquisitions or takeovers, as a practice, the Company engages the independent third parties to provide fairness in evaluation. These corporate actions are always approved or rejected by the shareholders in accordance with the provisions of the Corporation Code.

#### *Shareholder Participation at Shareholders Meeting & Documentation of Minutes*

The Office of the Corporate Secretary ensures that all Minutes of annual and special meetings of shareholders clearly and satisfactorily reflect all matters taken up during these meetings. All shareholders are encouraged and given the right to participate in the meetings. The questions and answers, the issues and motions raised, the agreements and resolutions arrived at, the corporate acts approved or disapproved, and the voting results are reported in the Minutes. The Company also discloses to PSE and the SEC all the items approved at the ASM based on the agenda items provided to all shareholders, no later than the next business day after the ASM.

At every ASM, the Company ensures the effective exercise of the rights of its shareholders. There are no barriers or impediments preventing shareholders from consulting or communicating with one another, with the Directors and with the Corporate Secretary.

### *Shareholders Meeting Venue Accessibility*

The Company's 2013 ASM was held in Raddison Blu Hotel in Cebu City, where the principal place of business of the Company was located. The hotel venue is easily accessible to majority of the shareholders. A separate shareholders' briefing was also held at the Intercontinental Manila Hotel for the Luzon-based shareholders and stakeholders.

### *Shareholders Meeting Notice and Agenda*

The Company provides at least a 21- day prior notice for all proposed resolutions and rationale thereof with corresponding explanation for each agenda item requiring shareholders' approval in the notices of the ASM. Such notice is indicated in the Company's Preliminary and Definitive Information Statements and also published in newspapers both in Cebu and in Manila. Each resolution relates to only one agenda item, and a brief rationale or explanation for its inclusion in the ASM is provided. The Company does not include any additional and unannounced agenda item in the ASM if not disclosed prior to the ASM.

The Notices, Minutes, and other Corporate Documents of the Company are written in English, the official language in the Philippines and generally known and understood by the Company's shareholders. The Company releases its Notice of ASM at least 30 days before the date of the meeting.

Together with the notice, the profiles of the nominees for the positions of Board of Directors and the current key officers of the Company are provided to shareholders through the Preliminary and Definitive Information Statements distributed to shareholders before the ASM. The profiles of the nominees, members of the Board and its key officers include their qualifications, work experience, age, and positions and offices held for the past five years, date of first appointment, and other directorships currently and previously held in other listed companies.

The auditors seeking an appointment or re-appointment are clearly identified by the Company in the disclosures.

### *Voting by Proxy*

The shareholders may vote in person or by proxy. Arrangements for proxy voting or voting in absentia are in line with pertinent rules and regulations. The Company provides shareholders with a copy of the Proxy form through the following: (1) printed copy enclosed in the Definitive Information Statement; (2) digital copy inserted in the CD kit containing the soft files of the Definitive Information Statement; and (3) downloadable form from the Company's website.

An independent auditor, Luis Canete & Company, has been appointed as independent inspector for the validation of votes at the 2013 ASM.

### *Right to Receive Dividends*

The Company has a clear and transparent dividend policy. This is disclosed in the Operational and Financial Information section of the Annual Report, in the Information Statement and in the Report of its Chief Financial Officer.

In its regular board meeting held on November 28, 2012, the Board of Directors of the Company, approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. This new policy changes the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy took effect in its cash dividend declaration in 2013 based on 2012 net income after tax. Cash dividends declared by the Company to common stockholders from 2011-2013 are shown in the table below. This dividend policy remains unchanged. *(See Management's Discussion and Analysis or Plan of Action)*

In the last three years, the Company paid the following dividends:

Year	Cash Dividend per year	Total Declared
2014	P1.26 (regular)	P9.27bn
	P0.40 (special)	P2.94bn
2013	P1.66	P12.22bn
	P1.32 (regular)	P9.71bn
2012	P0.22 (special)	P1.62bn
2011	P1.32	P9.71bn

In respect to dividends, shareholders are treated equally, receiving an amount of dividends per share that is proportionate to his/their shareholdings. The dividends are paid within 30 days from date of declaration and approval by the Board.

### *Appraisal Right*

Shareholders enjoy the appraisal right or the right to dissent and demand payment of the fair

value of their shares. The right is exercised under circumstances provided in the constitutive documents of the Company and within the statutory requirements of Section 82 of the Corporation Code of the Philippines, which disallows payment of such shares if the Company has no unrestricted retained earnings in its books to cover a payment. However, since the Company is listed on the PSE, any shareholder may freely sell his shares on the market.

### *Equitable Treatment of Shareholders Voting Rights of Minority Shareholders*

The Company believes in the value of building a sustainable and long-term relationship with its shareholders, and ensures that the Company's minority shareholders are equitably treated. All minority equity shareholders of AboitizPower are entitled to the same voting rights as the other shareholders. The Company adheres to the one-share-one-vote policy for matters requiring shareholder approval and, through the cumulative voting system, allows minority shareholders the ability to influence Board composition. The removal of a director will not be allowed if this will result in a denial of minority shareholders representation in the Board.

The Company understands the need for balance of the allocation of power between the majority and the minority or arrangements that empower minority shareholders (or limit the power of the majority shareholders) with respect to certain decisions and with the ability to influence board composition.

Other rights enjoyed by minority shareholders include the right to propose the holding of a meeting and the right to propose items in the agenda of the meeting, provided that these items are for legitimate business purposes. The minority shareholders have access to any and all information relating to matters for which Management is accountable for and other information that is necessary. If certain information is not included, then the minority shareholders can propose to include legitimate matters in the agenda of shareholders' meeting.

## **FAIR DEALINGS FOR ALL SHAREHOLDERS**

As a publicly listed company, the Company is subject to numerous laws and regulations. It is the responsibility of everyone within the organization to know and understand the laws applicable to their job functions and to comply with both the letter and spirit of these laws and regulations to avoid actual misconduct and any appearance of impropriety. Every employee is responsible for fair dealings with the Company's suppliers, customers, creditors, analysts, market intermediaries and participants. The Company also has a policy requiring full disclosure of details of related-party transactions in public communications.

The Company's Code of Ethics and Business Conduct outlines the general expectations of, and sets standards for Director and employee behavior and ethical conduct. Board members, Management and all other employees are informed of the Code and strict adherence is enjoined.

The Code encompasses prohibited practices involving conflicts of interest, proper dealings with proprietary and confidential information, and truthful disclosures in the best interests of the clients, the Company, and the public.

The Company strictly enforces a Policy on Trading of Company securities. The Policy imposes a trading blackout on AboitizPower securities beginning ten trading days before until two full trading days after the release of the quarterly or annual earnings of the Company. The Chief Compliance Officer sends out notices requiring the strict observance of the trading blackout via various media (email and short messaging services) to all the Directors, Officers and identified key employees of the Company during any relevant blackout period. Because non-compliance with the policy may carry criminal and civil liabilities as well as reputational damage to the Company, the Board, the Management and the Office of the Chief Compliance Officer strictly enforce compliance with this Trading Policy.

Insider trading is strictly prohibited under the Code of Ethics and Business Conduct and the Manual and under the PSE Rules. The Amended Manual prohibits every member of the AboitizPower organization from any misuse of inside information. All team members of the Company are mandated to exercise prudence in handling material non-public information in the course of their work and in relation to the trading or dealing with AboitizPower securities.

For purposes of compliance with these rules, the Office of the Corporate Secretary conduct corporate governance seminars for all employees, from top management to team members. The seminars cover the rules prohibiting insider trading among many other topics on corporate governance rules of the Company. These seminars are being converted into e-learning modules for better employee penetration.

The Company has an existing policy requiring the Board of Directors and the officers to notify the Company at least one day before they deal in the company shares. There has been no violation and conviction of insider trading and abusive self-dealing by directors, management and employees in the past three years.

The Company promotes a culture of service, excellence and leadership. We believe that this environment promotes the recognition of a duty for employees and officers to advance the Company's interests and that of its stakeholders. No employee, officer or director may use his position or corporate property or information for personal gain, and no employee, officer or director may take for himself Company opportunities for sales or purchases of products, services or interests. Protection of proprietary and confidential information generated and gathered in the conduct of business is considered the obligation of every member of the Company's organization. Everyone is also expected to respect the property rights of other companies.

AboitizPower employees and officers are encouraged to promptly report any potential relationship, action or transaction that may give rise to a conflict of interest to the Human



Resources Department or to the Chief Compliance Officer. Directors are under the obligation to disclose any actual or potential conflicts of interest to the Chairman of the Board, to the Corporate Secretary, and to the Chief Compliance Officer. All Directors are also required to inhibit themselves from any Board discussion or decision affecting their personal, business or professional interests. Legal proceedings involving Directors and Officers that could affect their ability and integrity to serve the Company are required to be disclosed to the Chief Compliance Officer. No issues relating to related party transactions or conflict of interest has been raised in the past or recent years.

## DISCLOSURE AND TRANSPARENCY

The Company is committed to elevating our standards of disclosure and transparency and the quality and depth of its corporate governance practices to enable the investing community to understand the true financial condition of the Company. Through the Investor Relations Office, the Annual Report, the Company website, the Company's Information Statement and all disclosures to the PSE and SEC, the Company publishes timely material information on its businesses. Regular disclosures include details of the Company's subsidiaries, associates, joint ventures and special purpose vehicles, if any. There are no special arrangements enabling certain shareholders to obtain a degree of control disproportionate to their equity ownership that needs to be disclosed.

## DISCLOSURE OF MATERIAL INFORMATION

The Company periodically submits to the PSE a public ownership report detailing the extent of ownership of controlling shareholders, including the shareholdings of their subsidiaries and affiliates, and that of the Directors and Management. It submits to the PSE a list of its top 100 shareholders every quarter. It also discloses its top 20 shareholders, including shareholders of record and beneficial owners owning more than five percent of the Company's outstanding capital stock, and shareholdings of its Directors and Officers in the Company's Information Statement, and sent out to shareholders annually. The Company, however, has no control over outside shareholders who may choose to put their shares under nominee holding companies such as the PCD Nominee Corporation, and is thus unable to make any disclosure on details of that ownership.

## DISCLOSURE OF BENEFICIAL OWNERSHIP OF DIRECTORS AND OFFICERS

The Company has an existing policy requiring the Board of Directors and the officers to report to the Office of the Corporate Secretary any transaction related to the purchase and disposal of Company shares within five business days from date of transaction. The Company discloses the direct and indirect (deemed) shareholdings of major and/or substantial shareholders and the

details of the subsidiaries, associates, joint ventures and special purpose enterprises/vehicles. The Company's Definitive Information Statement and Public Ownership Report regularly filed by the Company likewise show the direct and indirect ownership of the Company's shareholders, which include its Board, management, and employees.

The Company has an existing whistleblowing policy to encourage all employees and other stakeholders to report illegal and unethical practices in the Company directly to the President or Chairman of the Board of Directors. AboitizPower supports the disclosure of these practices as the Company believes it will support and further strengthen its competitive advantage. This policy does not allow for any kind of retaliation for reports or complaints by employees regarding the misconduct of others that were reported in good faith.

There has been no incidence where the Company failed to disclose the existence of capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to the disclosed equity ownership. There are no such agreements.

The Company strives to publish a clear, comprehensive and informative Annual Report. The sections on Management Discussion and Analysis or Plan of Action, the Audited Financial Statements and Results of Operations of the Annual Report discuss in detail the financial and operating results of the Company. Other non-financial matters are discussed in the Shareholders' Report and Results of Operations section. Operating risks, particularly major risks, are also discussed in the Audited Financial Statements, and which also include discussions on the Financial Risk Management Objectives and Policies of the Company. *(See related sections of the Annual Report)*

The Company has a policy on transparency of compensation for its Directors and key executives, in accordance with SEC rules. Information on the basis of Board remuneration is readily accessible through the Company's Annual Report and its Board Corporate Governance Committee minutes. The Board Corporate Governance Committee ensures that the Directors and executives' remuneration is consistent with the Company culture, strategy and business policies at a level sufficient to attract and retain directors and officers who are needed to run the Company successfully. The Company rewards its individual Directors and Officers based on ability to execute their duties and responsibilities. It is the Company's philosophy to reward officers and employees based on individual performance measured through established Human Resources management metrics. Performance is evaluated and compensation is reviewed on an annual basis. The Company ensures that it pays its directors and officers competitively by comparing rates with other Philippine-based companies through participation in and access to market salary surveys.

The Company is compliant with the requirement for the Members of the Board of Directors and Management to report or disclose to the SEC and the PSE, within five trading days from the disclosed transaction, any acquisition, disposal or change in their beneficial shareholdings

in the Company. This is to monitor and ensure a proper relationship between Directors and the Company. Under its Manual, Directors have a duty to avoid conflicts of interest. Thus, a director must not do anything for and on behalf of the Company where his motivation and loyalties would be divided, or would result in favoring his own self-interest, or allowing someone connected or related to him to be given equal or higher stature to that of the Company. Directors have a duty to account to the Company for any profit or gain he may have obtained as a result of such activities. The Company may thus exercise certain rights against the director for acting in circumstances such as conflict of interest.

## TRANSPARENCY OF AUDIT PROCESS

The Company's Group Internal Audit and the Board Audit Committee conduct and review the Company's internal audit operations. The Group Internal Audit conducts its own internal audit, providing an independent review of the Company's organizational and operational controls and risk management policies to ensure its effectiveness and appropriateness, and that they are complied with. The Group Internal Audit reports to the Board Audit Committee.

With an independent audit function, the Group Internal Audit provides reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with. The team is also responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems. They do this by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. The Group Internal Audit also utilize other quality assurance providers within the organization.

The Group Internal Audit adheres to established professional standards and such standards promoted by the Institute of Internal Auditors' Code of Ethics.

The Board Audit Committee assists the Board of Directors in its oversight responsibility of monitoring the quality and integrity of the accounting, auditing, legal, ethical and regulatory compliance, risk management and reporting practices of the Group and such other duties as directed by the Board. The Committee assists the Board in fulfilling its responsibility of corporate governance. The role and responsibilities of the Board Audit Committee are clearly defined in the Amended Manual, specifically the Board Audit Committee Charter. The Independent Director who acts as Chairman of the Board Audit Committee signs off on all Board Audit Committee Reports.

Aside from an internal audit, an annual external audit of the Company is performed by SGV, an independent, competent and qualified auditor. SGV has been the Company's external auditors for the fiscal years 1998 to 2012. SGV provides an external and objective assurance to the

Board and shareholders that the financial statements fairly represent the financial position and performance of the Company in all materials aspects. Ms. Leovina Mae V. Chu is the Company's audit partner for 2012 and 2013. She replaced Mr. Ladislao Z. Avila, Jr. who served as the audit partner of the Company in 2011. The external auditors also attend the Company's ASM to respond to any questions on the Company's audited financial statements. They also have the opportunity to make a statement if necessary. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

There has been no event in the past 19 years where the Company and its external auditors or the handling partner had any serious or material disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the selection of external auditor and pre approves audit plans, scope and frequency before the audit is conducted.

Audit services of external auditors for the years 2012 and 2013 were pre-approved by the Board Audit Committee. The Committee has also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

The fees paid to the external auditor for audit services are disclosed by the Company in its Information Statement. The external audit and consultancy fees of the Company for the years 2012 and 2013 were as follows:

Fee Type	Year ended December 31, 2013	Year ended December 31, 2012
Audit Fees	P348,000.00	P331,000.00
Tax Fees	-	-
All Other Fees	P725,000.00	-
<b>Total</b>	<b>P1,073,000.00</b>	<b>P331,000.00</b>

## LINKAGES TO THE COMPANY

The Company website contains up-to-date corporate information of the Company, including details of its business operations. The Investor Relations section of the Company website provides financial highlights, recent press releases and information on the shareholding structure and organizational structure of the Company, among others.

Stakeholders are invited to visit the Company's webpage and its corporate governance website for its policies and practices. The Company website provides, among others, a description on the governance practices in the Company, its corporate structure, its sustainability and corporate social responsibility initiatives, and the awards it has garnered in recent years. An electronic copy of the Annual Report including the Corporate Governance Report can also be downloaded from the website. In addition, Management regularly uploads updated news and disclosures on the Company website. The Company's corporate governance initiatives, such as newly approved policies, circulars and board policies are also made available to the public on the Company website.

In addition, the Office of the Corporate Secretary, the Company's Investor Relations Office, its shareholder affairs contact person and its Stock and Transfer Agent are also available for any communications, requests, inquiries or any clarifications. The contact details are provided in the Annual report and in the Company's website. The Investor Relations team provides a venue for shareholders to air out comments or any suggestions and organizes regular analysts' briefing for every disclosure of financial statements. It also ensures that investors/shareholders' queries are responded at least three to five business days.

There have been no major grievances for any alleged violation by the Company of shareholders' rights.

## RELATED PARTIES TRANSACTIONS DISCLOSURES

The nature and extent of transactions with affiliated and related parties are disclosed annually to shareholders through the Company's Information Statement, Annual Report and Audited Financial Statements. The Company and its subsidiaries enter into related party transactions consisting of payment of shareholder advances, professional fees and rental fees. These are made on an arm's length basis and at current market prices at the time of the transactions. Service and management contracts are also entered into with subsidiaries and affiliates for corporate center services, such as human resources support services, internal audit services, legal and corporate compliance services, treasury and corporate finance services, technology infrastructure services. These services are obtained from the Company to enable the Aboitiz group of companies to realize cost synergies. The Company maintains a pool of highly qualified professionals with in-depth business expertise specific to the businesses of its corporate

organization. Transactions are priced on a cost recovery basis. In addition, transaction costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Commitments and Agreements are executed to ensure quality and timeliness of services.

The SEC issued new disclosure guidelines on retirement benefit funds. These guidelines enumerate the minimum disclosure requirements under PAS 24, Related Party Disclosures, and prescribing additional disclosure requirements on the information that would provide an understanding on the transactions of retirement funds with an entity whose employees are the beneficiaries thereof and other investments in securities of the related entity. These disclosure guidelines are applicable to annual financial statements for the period ending December 31, 2013. The Company is compliant with the disclosure rules in respect of its annual reports.

There has been no reported case of non-compliance with the laws, rules and regulations pertaining to significant or material related party transactions in the past three years.

The Company's Annual Audited Financial Statement (AFS) is filed within 120 days from the end of its fiscal year, as required by the SEC. Our AFS reflects a true and fair representation of the financials that are affirmed by the Board of Directors and relevant officers of the Company. There have been no revisions and restatements of the financials approved by the Board Audit Committee prior to the approval of the Board. Copies of the AFS are given to all shareholders and are also available on the company website.

## CORPORATE GOVERNANCE AND THE ROLE OF ABOITIZPOWER STAKEHOLDERS

The Company has a corporate policy and an entrenched culture that recognize and protect the rights and interests of key stakeholders, specifically its employees, host communities, host local government units, its customers, its suppliers, creditors, regulators, the environment and other key stakeholder groups. By taking care of its stakeholders, the Company builds goodwill and long term engagement of its stakeholders.

The Company has a long and deep corporate social responsibility culture and program. It also has a Sustainability Program.

The Company is committed to living the principles of sustainability as these relate to the Company's businesses. Its subsidiaries and affiliates, SN Aboitiz Power- Benguet, Inc. and Hedcor Sibulan, Inc. have registered their hydroelectric power plants under the Clean Development Mechanism (CDM) or carbon trading by the United Nations Framework on Climate Change. This is the Company's contribution to the international response to climate change promoting hydroelectric power projects as a major source of renewable energy for the country. CDM is a mechanism agreed in the Kyoto Protocol to enable industrialized countries to reduce



greenhouse gas, to invest in climate change friendly projects in developing countries, and to allow them to develop emission reduction projects to earn carbon emission credits. (*See also Sustainability Report*)

The Company recognizes that corporate governance principles revolve around relationships between and among the many stakeholders and the goals for which a corporation is governed. Its principal stakeholders, the shareholders, management teams, employees, Board of Directors, lenders, financing providers and intermediaries, regulators and the community, together contribute to the successful pursuit of the Company's business goals. Good corporate governance requires policies and procedures that promote awareness and observance of stakeholders' rights at the company level. This is why AboitizPower makes sure that its various stakeholders concerns are addressed and relationships nurtured with fairness and honesty, consistent with its mission and vision and its commitment to service.

## COMPLIANCE WITH HEALTH, SAFETY AND ENVIRONMENTAL LAWS

The Company's power generation and distribution operations are subject to evolving and stringent safety, health and environmental laws and regulations. For the year 2013, the Company and its subsidiaries and affiliates were fully compliant with the legal standards. AboitizPower and all its generation companies and distribution utilities have been granted Certificates of Compliance from the relevant governmental agencies and bureaus requiring certification. The business units of the Company commit to the expenditure on occupational health and safety measures well worth the investment. To note, the Company has gained recognition for operating its businesses with none or limited accidents, a clear demonstration of how the Company values health and safety measures in the work environment.

Existing regulations, in particular, Energy Regulation 1-94 require the business units of the Company to allocate funds for the benefit of host communities. Compliance with the mandatory provisions of law is not only for the protection of the natural environment, but for the upliftment of the neighboring communities as well. The Company's subsidiaries have gone beyond mere compliance with these regulatory requirements on these benefits to host communities as well as on health, safety and environmental laws.

The Company continues to address the social and economic development needs of the less privileged through community empowerment activities. The Company and its business units have been able to obtain the Free Prior and Informed Consent from the Indigenous Communities in areas where the AboitizPower companies operate because of the well-entrenched corporate social responsibility programs of the group. The Company adheres to the practice of priority in hiring qualified disadvantaged individuals in the community for better employment opportunities. The Company prioritizes programs in education, such as but not limited to,



scholarship plans, construction or renovation of school buildings, and computer and library kit donations. These programs help improve the learning development of students from all levels in the community. As part of its corporate social responsibility, the Company also engages in enterprise development, microfinance operations and primary health and child care services to improve the quality of life of its beneficiaries. *(See Aboitiz Foundation Report)*

The Company is likewise committed to the sustainability of the earth’s resources through a clearly defined Sustainability Program. *(See Sustainability Report)*

## THE EMPLOYEE AS A STAKEHOLDER

The Company follows Aboitiz Equity Ventures’ universal training passport program for all employees. This universal training program includes personal development skills such as Principles of Quality Living, Seven Habits, Creating the Future Organization, Basic Quality Awareness, and Working Program, to name just a few in house training skills. The Company adheres to a merit-based performance incentive pay compensation package that includes some form of employee stock ownership plans, merit increase schemes and bonus schemes for performance and incentives to employees. The Company offers not only statutory benefits but also additional internal benefits program to enhance the quality of life of our employees.



The AboitizPower employee benefit package aims to foster a culture that realizes, rewards and celebrates the Aboitiz values and culture across the group. The Company participates in the Aboitiz Groupwide Team Awards for Service, Excellence, and Innovation.

In response to the changing need for gender equality in the workplace, the Company makes sure that there is no discrimination for all types of employees based on the gender. The employees are hired and promoted on the basis of their qualifications, experiences, capabilities and merits relating to the performance of their jobs and not on the basis of gender or sexual preferences.

The table below shows a comparison of the number of female employees and male employees for the year 2013:

	Female	Male
Senior Management	12	31
Middle Management	14	22
Staff	48	50
Total	74	103
Percentage	42%	58%



## EMPLOYEE RELATIONS

The Company believes in inspiring our employees, developing their talents and recognizing their value as business partners. The contribution of every employee is important to the fulfillment of the Company’s goals. The Company is committed to a workplace in which all individuals are treated with dignity and respect. The Code also promotes a safe and healthy working environment which provides equal employment opportunities and prohibits discriminatory practices.

Employees’ professional and personal growth is of paramount concern to the Company and the Company is keen to provide opportunities to deepen employee’s understanding of the Company’s value-creating proposition. The Company cultivates a culture of life-long learning through high value, relevant, quality training programs designed to support employee career development path and personal growth. The Company’s numerous “Kabisig” and “Kauban” programs strive to strengthen the ties that bind employees and the Company together. Exemplary performers are nurtured through a talent management program designed for the development of the next generation of corporate leaders. AEV Corporate HR also provides the Company with Key Talent

Retention programs for the Company's succession planning.

The Company maintains robust lines of communication between Management and employees, allowing the Company's employees to interact with top executives in the organization and provide opportunities for leadership role models and mentoring. This allows a free exchange of ideas and shared experiences, promoting teamwork, collaboration, cooperation, innovation and diversity within the organization. The Chairman of the Board and the Chief Executive Officer also organize regular formal and informal get-togethers with the Board of the Directors and key officers across the Company and its business units providing invaluable interaction between the Board and the management team leaders.

## RELATIONS WITH SHAREHOLDERS, CUSTOMERS, SUPPLIERS, BUSINESS PARTNERS AND FINANCING PROVIDERS

The Company believes in the value of its shareholders and ensures that its shareholders and investors receive timely, relevant, balanced, high-quality and understandable information about the Company. The Investor Relations Office assures shareholders and investors of an easy and direct access to officially designated spokespersons for clarifying information and issues as well as dealing with investor concerns. AboitizPower's commitment to its shareholders is reiterated annually through its comprehensive reports on its operations, particularly the Company's Report to Stockholders in the Annual Report and through its investors' briefings, investor conferences, non-deal road shows and one-on-one meetings. The Company continually plans website content management initiatives to regularly keep its shareholders updated with the latest Company developments.

The Investor Relations Office conducted investors' briefings in May 3, August 2 and October 30, 2013 to enable investors to discuss the Full Year 2012 Financial Operating Results, First Quarter 2013 Financial and Operating Results, Second Quarter 2013 Financial and Operating Results and Third Quarter 2013 Financial and Operating Results.

In July 2013, the Risk and Reputation Management Team conducted a Joint Audit and Risk Management Forum with the theme "Forging a Collaborative Alliance" which was attended by over 100 key leaders, including members of the Company's Board, top management, auditors and risk managers.

### *Policy on Safeguarding Creditor's Rights*

In dealings with its customers, suppliers and business partners, the Company abides by the Fair Dealing Policy found in its Code of Ethics and Business Conduct. The basis of the policy is the Company's objective to out-perform its competition fairly and honestly through superior

performance. Every employee, officer and director therefore always prioritizes the best interests of the Company's clients and endeavors to deal fairly with suppliers, competitors, the public and one another. No one should take unfair advantage of anyone through manipulation, abuse of privileged information, misrepresentation of facts or any other unfair dealing practice.

Its commitment to its shareholders is reflected in the Company's comprehensive reports on its operations, particularly its Report to Stockholders in the Annual Report. Its senior financial officers, executive officers and directors endeavor to inform and assure shareholders of the timely discharge of financial responsibilities through the Annual Report of the Company. The Audited Financial Statements of the Company gives a clear view of the Company's financial condition. All pending legal and tax proceedings, tax assessment notices, and voluntary assessment program or tax relief availment that are potentially material to AEV's business are disclosed through the Legal Proceedings section of the Information Statement of the Company.

#### *Anti-Corruption Policy*

As a publicly listed company, the Company is subject to numerous stringent laws and regulations. All Company employees are made aware of their responsibility to know and understand the laws applicable to their respective job responsibilities and are directed to comply with both the letter and the spirit of these laws. All employees are expected to behave properly within the bounds of law and are also cautioned to avoid any appearance of impropriety. The Company ensures that all stakeholders are aware of these various laws operating within its own environment, and adopts policies to encourage participation and prevent any violation of these laws. One such policy is the non-acceptance of gifts from persons who have a beneficial relationship with the Company. The Company makes it a point that employees know that gifts and special favors may create an inappropriate expectation or feeling of obligation. Further, it is a policy of the Company that business gifts to, and entertainment of, non government employees in connection with business discussions or the development of business relationships are only appropriate if they are in the ordinary course of business and their value is modest.

Moreover, in dealings with suppliers and other business partners, the Company likewise ensures that they are compliant with the laws, for example, requiring appropriate certificates of registration from the Bureau of Internal Revenue. Another example is the detachment of the Board, management and employees from any conflict of interest as mandated in the Company's Code of Ethics and Business Conduct. All directors are prohibited from participating in any Board discussion or decision affecting their personal, business or professional interests. All employees, officers and directors have an obligation to act in the best interests of the Company.

#### *Policy on Occupational Health and Safety*

The Company has a corporate policy on Occupational Health and Safety, which mandates Management to eliminate any potential hazards or work situations that may result to property loss or damage, accidents or personnel illness and injury. It is the policy of the Company to

protect both people and property.

The Company is committed to strike a balance among economic growth, social development and environmental stewardship factors in the conduct of its business. The Company implements programs that promote environmental preservation as well as social and economic development in the communities where its businesses operate. To fulfill this commitment, Management provides and maintains a healthy and safe work environment in accordance with industry standards and in compliance with legislative requirements. All Team Members are equally responsible for maintaining healthy and safe workplaces that minimize the probability for accidents or hazardous incidents. Accidental loss can be controlled through proactive management and active employee involvement.

All corporate service units and BUs comply with all legislative occupational health and safety requirements as they relate to planning, operation and maintenance of facilities and equipment usage. All personnel perform their job tasks properly and in accordance with established safe work practices and procedures. The Company enjoins all stakeholders to make occupational health and safety a way of life at Aboitiz.

As an example of the Company's efforts in promoting occupational health and safety, some of the BUs conduct and participate in safety and skills competitions in Davao and Benguet, which include training on emergency preparedness skills such as firefighting, basic life support, bandaging and emergency transport. These events are held annually to refresh employees on safety practices and technical skills. In 2013, Davao Light & Power Company, Inc. initiated the Intensified Safety or I-Safety Campaign, which aims to inform its customers on the hazards of electricity so they can avoid accidents. Aside from giving information on the risks related to electricity, the campaign also included an anti-pilferage presentation aimed at educating and protecting the customers from unscrupulous acts related to electricity theft. There were also presentations on energy saving tips and how to read an electric meter to help them manage their electricity. In addition, Hedcor, an AboitizPower subsidiary, was recently awarded the Gawad Kaligtasan and Kalusugan Award for Occupational Safety and Health by the Department of Labor (DOLE) and the Safety Milestone Award by the Bureau of Working Conditions.

## RELATIONS WITH THE COMMUNITY AND THE ENVIRONMENT

The Company's thrust towards becoming a better corporate citizen can be summed up in the words of its very own President and CEO, Mr. Erramon I. Aboitiz:

"As we pursue our growth ambition, we will continue to be driven and guided by our core values of integrity, innovation, teamwork, and responsibility. We will pursue this exciting future with the Aboitiz Passion for Better Ways, and our sustainability mindset that we can do well by doing good, always making the right

long-term decisions that balance the interests of people, planet, and profit.”

The Company’s broader obligations to society and the community are addressed by the Company’s continued compliance with its Manual, relevant laws and regulations, and the principles of sustainable development practices by the Company and its business units.

In pursuit of striking a balance between economic growth and sustainability, the Company implements programs that promote environmental preservation, such as the Mt. Apo Natural Park rejuvenation projects, and social and economic development in the communities where its businesses operate through the Aboitiz Foundation. The Company’s business units implement programs designed to make their operations more cost-efficient at the same time foster meaningful and long term partnerships with their host communities. The Company not only respects sustainability of the environment and natural resources, but also considers the immeasurable legacy and culture of indigenous peoples.

The policy of sustainability of businesses is now part of the Company’s corporate governance culture. The Company continues to engage in activities leading to sustainable development such as Race to Reduce and Earth Hour. (*See Sustainability Report*)

The Company believes that for it to continue to grow and flourish, it has to operate within a rational financial model, with a collaborative community, and within sustainable ecological framework. As the Company looks to the providing better solutions for a better future, it remains cognizant of its power to uplift the future of our communities. As part of the Company’s 2013 Environmental Management System initiatives, the Company set up the AboitizPower Generation Group environmental policies and guidelines, the BU Environmental Management Compliance and the BU environmental management projects and activities coaching and monitoring program.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITMENT

The Company consciously embraces the “3Ps” - People, Planet and Profit motto as part of the Aboitiz Way. The 3Ps is otherwise known as the triple bottom line approach offering a far more expanded measure of organizational success than merely financial results. Numerous programs are implemented under the 3Ps policy.

The 2013 priority program of the Company involved the integration of CSR, Sustainability and Branding programs, in particular cascading the framework for developing plant-specific CSR programs. The Company implements programs that promote environmental preservation as well as social and economic development in the communities where its BUs operate. The Aboitiz Group, driven by its passion for a better world, continues to pursue initiatives to help enrich the planet through various sustainable projects that it has implemented in 2012. One of the



notable achievements of its “green efforts” in 2013 was the planting of 2.68 million seedlings all across the country under the Group’s Aboitiz Passion for Reforest and Agro-forest to Keep (APARK) Program, well in advance of its initiative to plant 3 million trees by 2015. The seedlings that were planted were mostly of native or indigenous species as well as of the fruit bearing variety. The policy of sustainability of businesses is an integral part of the way the Company conducts its businesses. An ingrained CSR agenda is part of the Company’s contribution to enriching the lives of its neighboring communities as well as a legacy to the country. *(See Aboitiz Foundation Inc. Annual Report)*

The Company, through the Aboitiz Foundation, also initiated CSR activities which focused on three programs components namely: education, enterprise development and environment supported by corporate donations of its BUs. In 2013, the highlight of the Foundation’s CSR efforts was its #BangonVisayas relief efforts in response to the earthquake and Typhoon Yolanda/ Haiyan that left a trail of devastation across the Visayas Region. The Aboitiz Challenge project was initiated to raise P200 million in funds for the relief, rehabilitation, rebuilding, and reconstruction work in the affected areas of Typhoon Yolanda. Through the initiative and generosity of the various BUs, partners, friends, and donors, the campaign successfully raised P208 million for this purpose. Through its commitment to give back to the community, the employees also continued with other projects such as Christmas outreach and participation in Brigada Eskwela.

As part of AboitizPower’s commitment in nurturing the environment and conserving the Earth’s diminishing resources, the Company adopted a female Philippine Eagle, and named her Pangarap. Pangarap’s home is in the Philippine Eagle Center in Calinan, Davao City. By providing Pangarap food and shelter, we hope to protect the Philippine Eagle, one of the most endangered species in the world. We are also hoping that Pangarap can successfully give birth to off springs in the future, and contribute to saving our national bird from extinction.

The Aboitiz Group is also working together with donors in the private sector, to support the Philippine Government in its efforts to reduce weather-related disaster risks in the country through Weather Philippines Foundation (WeatherPhilippines). WeatherPhilippines was established to operate a premiere weather forecasting system across the country with the installation of automated weather stations (AWS). By December 2013, WeatherPhilippines completed the installation of 402 AWS across the country. WeatherPhilippines, provides accurate and reliable weather forecasts throughout the whole country. The ultimate goal of WeatherPhilippines is to complement the Department of Science and Technology’s Project NOAH (Nationwide Operational Assessment of Hazards). WeatherPhilippines also operates a portal, “[www.weather.com.ph](http://www.weather.com.ph)” featuring a wealth of weather information transmitted through telecommunications and other multi-media accessible to all persons. The portal was upgraded in 2013 to include integration of the severe weather warning map with color-coded alerts, integration of the severe warnings on the detail weather page, and activation of two weather



models for better forecasting. The Company, through WeatherPhilippines, provides accurate, live weather forecasts throughout the entire country. *(See WeatherPhilippines website)*

On August 28, 2013, the Company launched its Cleanergy Center at the MakBan Geothermal Complex in Bay, Laguna, to firm up its longstanding commitment to responsible energy development and education in the areas it operates. The Cleanergy Center—taken from the words “clean energy” and named after AboitizPower’s brand for clean and renewable energy—is the country’s first renewable energy learning facility.

The Company participates in the annual Earth Hour event in partnership with the World Wildlife Fund (WWF) and the Cebu City government - in taking a step higher in its efforts to reduce its carbon footprint. The Aboitiz Group and its partners joined the rest of the country and the world in shutting off its lights on March 29, 2013 from 8:30 p.m. to 9:30 p.m. to conserve energy and lessen carbon dioxide emissions for at least an hour. For 2013, Visayan Electric Company (VECO), AboitizPower subsidiary, recorded a significant drop in power consumption from 3 MW in 2012 to an 11-MW reduction in 2013. Davao Light & Power Company, for its part, recorded an 8-MW drop compared to 5 MW in 2012.

#### *Other Sustainability Initiatives*

Hedcor Group planted over 14,000 trees simultaneously in Benguet, Mountain Province, Ilocos Sur, Davao del Sur, Davao City and Bukidnon. In Mindanao, 9,000 seedlings were distributed in the areas of Brgy. Tamugan, Davao City, Brgy. Sibulan, Sta. Cruz, Davao del Sur, and in Manolo Fortich, Bukidnon and these were also planted by the communities. In February 2014, Hedcor completed its pledge to manage 1,000 hectares of watershed within the protected areas of Mt. Apo Natural Park, where more than a half a million trees were planted for reforestation, roadside rehabilitation, riverbank stabilization and agro-forestry.

To further promote environmental protection and awareness among the youth, AboitizPower units AP Renewables, Inc.-Tiwi (APRI-Tiwi) and Makiling-Banahaw Geo(MakBan) held teambuilding activities in May 2013, as part of its efforts to further build basic geothermal energy awareness among their scholars with whom they discussed the basic geothermal power plant operations and other programs and projects of AboitizPower.

Therma South Inc., another subsidiary of AboitizPower, is expected to implement a widespread reforestation and rehabilitation project inside the ancestral land of the Matigsalog tribe in Marilog District in Davao City, which will cover around 1,000 hectares of the ancestral lands. The partnership targets the planting of around one million trees within the period of 10 years.

AboitizPower subsidiary Subic Enerzone Corporation (SEZ) received a certificate of appreciation for supporting the Subic Bay Metropolitan Authority (SBMA) Disaster Risk Reduction and

Management Committee (SDRRMC) for its Adopt-an-Ambulance program.

The SN Aboitiz Power (SNAP) Group held a series of stakeholders' forums in its host provinces of Benguet, Isabela, Nueva Viscaya, and Ifugao last July 22 to 25, 2013 to report and discuss the group's CSR efforts for the past five years. SNAP-Benguet has implemented 179 CSR projects since it acquired the Ambuklao and Binga hydroelectric power facilities in 2008. SNAP-Benguet funded 95 projects in Ambuklao, 84 projects in Binga, a majority of these projects were focused on indigenous peoples' needs, infrastructure, and education. SNAP-Magat has been implementing a total of 212 projects in the host provinces of Isabela, Nueva Viscaya, and Ifugao since 2007, majority of which are in the key result areas of infrastructure, education and governance.

The Company continues to reaffirm its commitment to do its share to protect and enrich our planet and to uplift the well-being of our communities through the implementation of the various sustainability and CSR projects. The Company is constantly finding efforts to ensure that its value chain is environmentally friendly and is consistent with promoting sustainable development.

## COMPANY AWARDS & RECOGNITION

The Company has been consistently considered as one of the top Philippine companies by the Institute of Corporate Directors (ICD) and Corporate Governance Asia for its commitment to good corporate governance practices. For its 2011 ICD corporate governance scorecard, it was recognized as a top Company practicing good corporate governance. In 2012, the Company received an award in the 3rd Asian Excellence Recognition Awards of Corporate Governance Asia held in Hong Kong on March 27, 2013. The Asian Excellence Recognition Awards are designed to recognize excellence in investor communications, business ethics, CSR, environmental practices and financial performance. Among the awards received by the Company and its subsidiaries were Best CFO - Iker Aboitiz and Best Environmental Responsibility.

AboitizPower's SN Aboitiz Power-Magat, Inc. (SNAP-Magat), a renewable energy generator, provides ancillary services necessary to maintain power quality, reliability and security of the Transmission grid. SNAP-Magat was 1st runner-up in the Mother Nature Category during the annual Pollution Control Association of the Philippines, Inc. (PCAPI) Awards. SNAP-Magat representatives received the recognition last April 17, 2013 during the PCAPI National Convention at the KCC Convention Hall in General Santos City. This recognition was attributed to its ISO 14001:2004 certified Environmental Management System (EMS), supported by environmental programs on water quality management, solid and hazardous waste management, air quality management, as well as sustainability programs, including its Greenhouse Gas Emissions Monitoring and participation in the Aboitiz-wide Race to Reduce Program. Corporate Social Responsibility programs such as the Dependable Agriculture and Livelihood through optimized

Water use Yearlong (DALOY) in Magat, and the Watershed Protection Livelihood Enterprise and Agroforestry Development (LEAD) Project are some of SNAP-Magat's long list of achievements. SN Aboitiz Power-Magat was also given the Safety Milestone Recognition (Smile) Awards by the Department of Labor and Employment's Bureau of Working Conditions (DOLE-BWC) for achieving record man-hours without a lost-time incident. It was also awarded the Asian Power Awards, the Anvil Awards of Excellence, and the Gawad Kaligtasan at Kalusugan for Occupational Safety & Health Practices.

In 2014, SNAP- Benguet turned over a total amount of P1.5 million to the municipality of Bokod, Benguet, as part of its CSR activities.

In 2013, AboitizPower subsidiaries Hedcor Sibulan, Inc. and Hedcor, Inc. were both ISO-certified. Hedcor Sibulan secured another three International Organization for Standardization certificates while Hedcor, Inc. successfully obtained recertification. After a series of audits and testing, Certification International Philippines, Inc. (CIP), a local ISO certifying company, awarded to Hedcor Sibulan, Inc. the 90001:2008 or Quality Management System, 14001:2004 or Environmental Management System, and OHSAS 18001:2007 or Occupational Health and Safety Management. Since being commissioned in 2010, Hedcor Sibulan has been supplying clean and renewable energy to Davao City without compromising the company's mission to operate, develop, and improve efficiency of plants.

AboitizPower subsidiary Therma Marine, Inc. (TMI) was awarded a Certificate of Appreciation for actively participating the "Adopt-A-Mangrove Program" through the Private-Public Partnership Program of Compostela Valley Governor Arturo Uy. The certificate was awarded to TMI during the province's 1st Nature's Day Celebration last July 22, 2013. Another subsidiary, Therma South Inc. (TSI) was awarded by the Department of Environment and Natural Resources (DENR) the first-ever Outstanding Environmental Impact Assessment (EIA) at the Manila Hotel last June 21, 2013.

AboitizPower subsidiaries Hedcor Sibulan, Inc. in Davao del Sur, Hedcor, Inc. in Benguet, Hedcor, Inc. in Talomo, Davao City, and Aboitiz Power Renewables, Inc. – Makiling-Banahaw (Mak-Ban) Geothermal Power Plant in Laguna were handed the Official Seal of Approval by the DENR for their sound environmental practices in the Philippine Environment Partnership Program (PEPP) awarding ceremony in Quezon City. These companies belong to PEPP's Track 1 Category, which are recognized for their initiatives that go beyond compliance and are driven to improve their performance with competitiveness, image and supply chain requirements.