

MANUAL ON CORPORATE GOVERNANCE ABOITIZ POWER CORPORATION

The Board of Directors and Management of Aboitiz Power Corporation hereby commit to the principles and best practices contained in this Manual, and acknowledge that the same may guide the attainment of our corporate goals.

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I. OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors, Management, Employees, and Shareholders of Aboitiz Power Corporation (hereinafter, APC) believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

II. COMPLIANCE SYSTEM

A. **Compliance Officer**

To insure adherence to corporate principles and best practices, the Chairman of the Board hereby designates as Compliance Officer the Corporate Secretary, who shall hold, at minimum, the position of a Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board.

1. *Duties*

He shall perform the following duties:

- a) Monitor compliance with the provisions and requirements of this Manual;
- b) Appear before the Securities and Exchange Commission upon summons on similar matters that need to be clarified by the same;
- c) Determine violations of the Manual and recommend penalties for violations thereof for further review and approval of the Board;
- d) Issue a certification every January 30th of the year on the extent of APC's compliance with this Manual for the completed year, explaining the reasons, if any, for the latter's deviation from the same; and
- e) Identify, monitor and control compliance risks.

2. *Disclosure*

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on Sec Form 17-C and to the Philippine Stock Exchange. All correspondence relative to his functions as such shall be addressed to the Compliance Officer.

B. *Plan of Compliance*

1. *Board of Directors*

Compliance with the principles of good corporate governance shall start with the Board of Directors.

It shall be the Board's responsibility to foster the long-term success of APC and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of APC, its shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

2. *General Responsibility*

A director's office is the one of trust and confidence. A director shall act in a manner characterized by transparency, accountability and fairness.

3. *Specific Duties and Functions*

To insure a high standard of best practices for APC and its stakeholders, the Board shall:

- a) Install a process of selection to ensure a mix of competent directors and officers.

Continuously determine APC's purpose, its vision and mission and strategies to carry out its objectives.

- b) Ensure that APC complies with all relevant laws, regulations and codes of best business practices;
- c) Identify APC's major and other stakeholders and formulate a clear policy on communication or relating with them through an effective investor relations program.

- d) Adopt a system of internal checks and balances;
- e) Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- f) Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted; and
- g) Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations.

4. Duties and Responsibilities of a Director

A director shall comply with the following duties and responsibilities:

- a) Conduct fair business transactions with APC and ensure that personal interest does not bias Board decisions;
- b) Devote time and attention necessary to properly discharge his duties and responsibilities;
- c) Act judiciously;
- d) Exercise independent judgment;
- e) Have a working knowledge of the statutory and regulatory requirements affecting APC, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies. The Corporate Information Officer shall ensure that directors and officers shall be updated on their corporate duties and responsibilities and on current relevant laws, rules and jurisprudence, and best business practices.
- f) Observe confidentiality;
- g) Ensure the continuing soundness, effectiveness and adequacy of APC's control environment.

5. Qualifications of Members of the Board

A member of the Board must be:

- a) a holder of at least one (1) share of stock of APC;
- b) at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- c) at least twenty one (21) years old;
- d) proven to possess integrity and probity;
- e) have no conflict of interest.
- f) able to devote his time in fulfilling his duties and responsibilities as Director.

6. Disqualifications for Board Membership

Any person:

- a) finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
- b) finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;
- c) judicially declared to be insolvent;
- d) finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the forgoing paragraphs; and
- e) Convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

Any of the following shall be a ground for the temporary disqualification of a director:

- a) Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.
- b) Absence or non-participation for whatever reason for more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his incumbency, on any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election;
- c) Dismissal from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- d) Being under preventive suspension by APC.
- e) If the independent director becomes an officer or employee of APC he shall be automatically disqualified from being an independent director.
- f) Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

7. Selection of the Board Directors and Officers

The Board of Directors are selected and elected to serve the organization according to the procedures set forth in the By-Laws, with particular care in regard to an officers' ability to perform duties and responsibilities as specified in this Manual.

The Board follows a screening process and evaluates its Directors and Officers based on:

- a) background
- b) skills and characteristics
- c) ability to act in good faith in the interest of APC and its stakeholders
- d) capacity to provide business continuity
- e) possession of a keen understanding of the business
- f) qualifications and standing as specified in this Manual

The Board may select or appoint its own members recommended by the Nomination Committee. It may appoint members of senior management as a Director. The invitation to join the Board is extended by the Board itself.

The Board does not believe it should establish term limits. Instead, a review of each Director's continuation on the Board is done annually.

8. Guidelines in the Number of Directorships

The Board shall consider the following guidelines in the determination of the number of the directorships for the Board:

- (i.) The nature of the business of APC;
- (ii.) Age of the director;
- (iii.) Number of directorship/active memberships and officerships in other corporations or organizations; and
- (iv.) Possible conflict of interest.

The optimum number of directorships a Director shall hold shall be related to the capacity of a Director to perform his duties diligently in general.

The Chief Executive Officer and other executive directors shall submit themselves to a low inactive limit on membership in other corporate Boards. The same low limit shall apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

9. Conflict of Interest/Business Interest Disclosure

At all times Directors have a duty to avoid conflicts of interest. Thus, a director must not do anything for and on behalf of APC where his motivation and loyalties would be divided in that his own self-interest, or someone connected or related to him, may be given equal or higher stature to that of APC. Directors have a duty to account to APC any profits or gains he may have had as a result of such, and in consequence thereof, APC may exercise certain rights against the director for acting in circumstances such as conflict of interest.

C. Board Committees

To aid in complying with the principles of good corporate governance, the Board shall constitute Committees.

1. Nomination Committee

- a) The Board may create a Nomination Committee which shall have at least three (3) voting (one of whom must be independent) and one (1) non-voting Director in the person of the HR Director/Manager.
- b) It shall pre-screen and shortlist all candidates nominated to become a member of the board of directors in accordance with the procedures, qualifications, disqualifications and guidelines specified in this Manual.
- c) In consultation with APC's executive committee, re-define the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.

2. Compensation and Remuneration Committee

a) Composition

The Board may create a Compensation and Remuneration Committee, which shall be composed of at least three (3) members, one of whom may be an independent director.

b) Policy on Executive Remuneration

APC rewards its individual Directors and Officers based on ability to execute his duties and responsibilities. It is APC's philosophy to reward based on individual performance. Performance is evaluated and compensation is reviewed on an annual basis. APC ensures that it pays its directors and officers competitively by comparing rates with other Philippine-based companies through a market salary survey. Changes in Board compensation, if any, should come at the suggestion of the Committee for Remuneration but with full discussion and concurrence by the Board.

c) Duties and Responsibilities of the Remuneration Committee

- (i) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration

packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with APC's culture, strategy and control environment.

- (ii.) Designate the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run APC successfully.
- (iii.) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers.
- (iv.) Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- (v.) Disallow any director to decide his or her own remuneration.
- (vi.) Provide in APC's required reports, a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year.
- (vii.) Review the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance or personnel concerned with all statutory requirements that must be periodically met in their respective posts.

3. Audit Committee

a) Composition

The Audit Committee shall be composed of at least three (3) members of the Board, one (1) of whom shall be an independent director. Each member shall have adequate understanding, familiarity and competence at most of APC's financial management systems and environment.

b) Duties and Responsibilities

- i.) Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- ii.) Perform oversight financial management functions, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of APC, and crisis management.
- iii.) Pre-approve all audit plans, scope and frequency one (1) month before the conduct of an external audit.
- iv.) Perform direct interface functions with the internal and external auditors.
- v.) Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
 - a. A definitive timetable, congruent with that required by law, within which the accounting system of APC will be 100% International Accounting Standard (IAS) compliant.
 - b. An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
- vi.) Develop a transparent financial management system that will ensure the integrity of internal control activities throughout APC through a step-by-step procedures and policies handbook that will be used by the entire organization.

c) General Audit Policy

- i.) It is the policy of APC to maintain a corporate audit function as one means of providing management with information to better manage and control the operations of the Aboitiz Power Group, for which the management is responsible.
- ii.) It is the Corporate Audit Team's (CAT) policy to operate in compliance with guidelines approved by the Audit Committee and ratified by the Board.

- iii.) Corporate Auditing is an independent appraisal function assigned with the responsibility to examine and evaluate all activities of APC, its affiliates, and subsidiaries as a service to management.
- iv.) APC has in place an independent internal audit function performed by the CAT, through which its Board, senior management, and stockholders are provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
- v.) CAT shall report to the Audit Committee.
- vi.) The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for APC's organizational and procedural controls.
- vii.) The scope and particulars of APC's system of effective organizational and procedural controls is based on the following factors:
 - 1. the nature and complexity of APC's business and the business culture;
 - 2. the volume, size and complexity of transactions;
 - 3. the degree of risk;
 - 4. the degree of centralization and delegation of authority;
 - 5. the extent and effectiveness of information technology;
 - 6. the extent of regulatory compliance.

d. Policy with regard to the External Auditor

- i.) An external auditor enables an environment of good corporate governance as reflected in the financial records and reports of APC. An external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
- ii.) The reasons for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in APC's annual and current reports. This report shall include a discussion of any disagreement with the former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

- iii.) The external auditor of APC shall not at the same time provide the services of an internal auditor to the same client. APC shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- iv.) APC's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- v.) If an external auditor believes that the statements made in APC's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

4. Investor Relations Committee

a) Composition

Composition – The Investor Relations Committee shall be composed of three (3) members, one of whom shall be a Director.

b) Duties and Responsibilities

1. To ensure that all shareholders have access to officially disclosed corporate and relevant information by way of the following media:

- (i.) Official disclosure statements submitted to the Philippine Stock Exchange and the Securities & Exchange Commission
- (ii.) The investor relations and media sections of APC's corporate website
- (iii.) Press releases
- (iv.) Annual reports and other materials to shareholders
- (v.) On-line electronic mail containing regular interim and other published materials to stockholders
- (vi.) Investor/stockholder's meetings with key people in APC
- (vii.) Written communications

2. To handle investor and stockholder queries by coordinating with departments with primary information and to ensure that investors/stockholders have easy and direct access to officially designated spokespersons for clarifying information, issues and for conveying concerns.

3. To secure feedback from investors & stockholders by way of:

- (i.) Regular formal research and surveys
- (i.) Informal meetings and get-togethers

D. The Corporate Secretary

1. Qualifications

- a) The Corporate Secretary is an officer of APC.
- b) The Corporate Secretary's loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.
- c) The Corporate Secretary shall be a Filipino citizen.
- d) Considering his varied functions and duties, he must possess administrative and interpersonal skills, as well as financial and accounting skills.

2. Duties and Responsibilities.

The Corporate Secretary:

- a) Gathers and analyzes all documents, records and other information essential to the conduct of his duties and responsibilities to APC.
- b) Is ultimately responsible for compliance with governmental reportorial requirements with the Securities and Exchange Commission, and with the Philippine Stock Exchange, among others
- c) As to Board meetings, gets a complete schedule thereof at least for the current year and puts the Board on notice, a reasonable period before every meeting. He also prepares and issues the agenda in consultation with senior management.
- d) Assists the Board in making business judgments in good faith and in the performance of their responsibilities and obligations.
- e) Attends all Board meetings and personally prepares the minutes of such meetings.
- f) Submits to the Commission, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.

III. INFORMATION SECURITY MANAGEMENT

The Board recognizes that information security management is an important component of corporate governance and hereby adopts the general principles and best practices of information security management.

IV. COMMUNICATION PROCESS

A. Availability of Information

This manual shall be available for inspection by any stockholder of APC at reasonable hours on business days.

B. Dissemination

All directors, executives, division and department heads are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

C. Department Copies

An adequate number of printed copies of this Manual must be reproduced under the supervision of HRD, with a minimum of at least one (1) hard copy of the Manual per department.

V. TRAINING PROCESS

If necessary, funds shall be allocated by the CFO or its equivalent officer for the purpose of conducting an orientation program or workshop to operationalize this Manual.

A director shall, before assuming duties as such, be required to attend a seminar on corporate governance, which may be conducted by a duly recognized private or government entity.

VI. REPORTORIAL OR DISCLOSURE SYSTEM OF APC'S CORPORATE GOVERNANCE POLICIES

A. The reports of disclosures required under this Manual shall be prepared and submitted to the Commission by the responsible Committee or officer through APC's Compliance Officer.

- B. All material information shall be publicly disclosed. Such information shall include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership.
- C. Other information that shall always be disclosed as required by law includes remuneration (including stock options) of all directors and senior management corporate strategy.
- D. All disclosed information shall be released via the approved stock exchange procedure for APC announcements and other required reports.
- E. The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

VII. SHAREHOLDERS' BENEFIT

APC recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as a governance covenant between APC and all its investors:

Investors' Rights And Protection

The Board shall be committed to respect the following rights of the stockholders:

1) Voting Right

- (i.) Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- (ii.) Cumulative voting shall be used in the election of directors.
- (iii.) A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

2) Pre-emptive Right

All stockholders shall have pre-emptive rights, unless the same is denied in the articles of incorporation or an amendment thereto, and in documents signed by such shareholders. They shall have the right to subscribe to the capital stock of APC. The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

3) Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

4) Right to Information

- (i.) The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of APC's shares, dealings with APC, relationships among directors and key officers, and the aggregate compensation of directors and officers.
- (ii.) The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- (iii.) The minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

5) Right to Dividends

- (i.) Shareholders shall have the right to receive dividends subject to the discretion of the Board.

- (ii.) APC shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when APC is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in APC, such as when there is a need for special reserve for probable contingencies.

6) Appraisal Right

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- (i.) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (ii.) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- (iii.) In case of merger or consolidation.

It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

VIII. MONITORING AND ASSESSMENT

- A.** Each Committee shall report regularly to the Board of Directors.
- B.** The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Part 8 of this Manual.
- C.** The establishment of such evaluation system, including the features thereof, shall be disclosed in APC's annual report (SEC Form 17-A) or in such form of report that is applicable to APC. The adoption of such performance evaluation system must be covered by a Board approval.
- D.** This Manual shall be subject to annual review unless the Board amends the same frequency.
- E.** All business processes and practices being performed within any department or business unit of APC that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

IX. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

- A.** To strictly observe and implement the provisions of this manual, the following penalties shall be imposed, after notice and hearing, on APC's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:
 - 1. In the case of a first violation, the subject person shall be reprimanded.
 - 2. Suspension from office shall be imposed in the case of a second violation. The duration of the suspension shall depend on the gravity of the violation.
 - 3. For a third violation, the maximum penalty of removal from office shall be imposed.
- B.** The commission of a third violation of this manual by any member of the board of APC or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- C.** The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

Certified Correct:

JON RAMON ABOITIZ
Chairman of the Board