

[NEA MANUAL OF CORPORATE GOVERNANCE, December 03, 2014]

MANUAL OF CORPORATE GOVERNANCE

Date Filed: 18 March 2015

The National Electrification Administration (NEA) in accordance with Memorandum Circular No. 2012-07 of the Governance Commission for Government Owned and Controlled Corporation (GCG) hereby promulgates the NEA Manual:

I DEFINITION OF TERMS

Section 1. Definition of Terms. - For purposes of this Manual, the following terms shall have the following meanings:

"Act" refers to Republic Act No. 10149, and officially named the "GOCC Governance Act of 2011."

"Administrator" refers to the highest ranking corporate executive who heads Management.

"Appointive Directors" refer to all members of the Board of Administrators.

"Board Officers" refer to Officers whose primary task is to serve the Board or to pursue the immediate functions of the Board, such as the Chairman, Vice- Chairman and the Corporate Secretary.

"Board of Administrators" or "Board" or "Governing Board" (Board) refers to the collegial body that exercises the corporate powers, conducts all business and controls or holds all properties, of the NEA.

"Board Member" refers to any member of the "Board of Administrators" of NEA. "Charter" refers to the formal act of Congress creating the NEA and defining its power and functions

"Charter Statement" refers to a statement of the NEA's vision, mission and core values.

"Chairman of the Board" refers to the Secretary of the Department of Energy, in his concurrent capacity, unless otherwise directed by the President as provided in R.A. 7638.

"Confidential Information" refers to all non-public information entrusted to or obtained by a member of the Board or Officer by reason of his/her position as such

with the corporation. It includes, but is not limited to, non-public information that might be of use to competitors or harmful to the corporation or its customers/stakeholders if disclosed, such as: (1) non-public information about the corporation's financial condition, prospects or plans, its marketing and sales programs and research and development information, as well as information relating to mergers, acquisitions, divestitures, stock splits and similar transactions; (2) non-public information concerning possible transactions or ventures with other companies, or information about suppliers, joint venture partners, or any information that the corporation is under obligation to keep confidential; and (3) non-public information about internal discussions, deliberations and decisions, between and among Directors and Officers.

"Chartered Corporation" refers to the NEA, created and vested with functions by a special law. Specifically, for this purpose; the NEA shall be referred to as the Corporation.

"Ex Officio Board Member" (Ex Officio Director) refers to any individual who sits or acts as a member of the Board of Administrators by virtue of one's title to another office, and without further warrant or appointment.

"Executive Officer" ("Officer") refers to the Administrator and such other corporate officer as expressly provided for in the Charter such as the Chief Financial Officer, and Corporate Treasurer. As distinguished from Board Officers, Executive Officers primarily form part of the Management of the Corporation.

"Extraordinary Diligence" refers to the measure of care and diligence that must be exercised by Members of the Board and Officers in discharging their functions, in conducting the business and dealing with the properties and monies of the Corporation, which is deemed met when Members of the Board and Officers act using the utmost diligence of a very cautious person taking into serious consideration all the prevailing circumstances and Material Facts, giving due regard to the legitimate interests of all affected Stakeholders.

"Fit and Proper Rule" refers to a set of standards for determining whether a member of the Board of Administrators or the Administrator is qualified to hold a position which shall include, but not be limited to, standards on integrity, experience, education, training and competence as such standards are set forth under GCG Memorandum Circular No. 2012-05.

"Government Agency" refers to any of the various units of the Government of the Republic of the Philippines, including a department, bureau, office, instrumentality or GOCC, or a local government or a distinct unit therein.

"GCG" refers to the Governance Commission for GOCCs constituted under R.A. 10149 as the central advisory, monitoring and oversight body with authority to formulate, implement and coordinate policies for the GOCC Sector.

"Management" refers to the body given the authority to implement the policies determined by the Board in directing the course and business activities of the Corporation.

"Manual of Corporate Governance" refers to the NEA Manual of Corporate

Governance.

"Material Information" (Material Fact) refers to information which a reasonable investor, stakeholder or Department of Energy (DOE) would consider important in determining whether: (1) to buy, sell, hold or otherwise transact with the securities issued by the Corporation; or (2) to the exercise with reasonable prudence voting rights related to securities held, or relating to corporate acts, contracts and transactions which would adversely affect the operations of the Corporation.

"Officers" refer to both Board Officers and Executive Officers.

"Per Diems" refer to the compensation granted to members of Governing Boards for actual attendance in Board and Committee meetings.

"Performance Evaluation System" ("PES") refers to the process of appraising the accomplishments in a given fiscal year based on set performance criteria, targets and weights.

"Performance Scorecard" refers to a governance and management tool forming part of the performance evaluation system which consists of a set of measures, targets and initiatives that facilitate the achievement of breakthrough results and performance through the effective and efficient monitoring and coordination of the strategic objectives of the Corporation.

"Public Officials" or "Public Officers" refer to elective and appointive officials and employees, whether permanent or temporary, whether in the career or non- career service, whether or not they receive compensation, regardless of amount," who are in the National Government, and all other instrumentalities, agencies or branches of the Republic of the Philippines, including government-owned-or- controlled corporations, and their subsidiaries.

"Stakeholder" refers to any individual or entity for whose benefit the Corporation has been constituted, or whose life, occupation, business or wellbeing is directly affected, whether favorably or adversely, by the regular transactions, operations, or pursuit of the business or social enterprise for which the corporation has been instituted such as but not limited to electric cooperatives, EC Board of Directors, EC management, EC associations, management, employees, and EC member consumers.

"Strategy Map" refers to an integrated set of strategic choices or objectives drawn by the governing body, the successful execution of which results in the achievement of the vision in relation to its mission or purpose for having been created.

"Supervising Agency" refers to Department of Energy (DOE) to which the Corporation is attached for purposes of policy and program coordination and for general supervision.

Sec. 2. Singular Term Include the Plural. - Unless otherwise indicated in this Manual, any reference to a singular, shall apply as well to the plural, and vice versa.

Sec. 3. Coverage. - This Manual shall be observed by the Corporation.

II

ROLE OF NEA IN NATIONAL DEVELOPMENT

Sec. 4. NEA as the Government tool for National Development. – Pursuant to Presidential Decree No. 269, as amended by Republic Act 10531, the NEA is mandated, among others, to:

- (1) Pursue the electrification program of the government and to bring electricity to the countryside including the missionary or economically unviable areas through the electric cooperatives; and
- (2) Ensure the economic and financial viability and operation of all electric cooperatives in the country.

III

GOVERNING BOARD

Sec. 5. Board Directly Vested with Corporate Powers. - Having been vested directly by law with the legal capacity and authority to exercise all corporate powers, conduct all the business, and to hold all the properties of the Corporation, the Governing Board is primarily responsible for governance of the Corporation. Consequently, it is the Board and not Management that is primarily accountable to the State for the operations and performance of the Corporation.

Sec. 6. Board Duty to Properly Select and Provide Independent Check on Management. - Concomitant with the power to elect the Administrator from among their ranks and to appoint other Officers, it is the duty of every Governing Board to ensure that they elect and/or employ only Officers who are fit and proper to hold such offices with due regard to their qualifications, competence, experience and integrity. The Board is therefore obliged to provide an independent check on Management.

Sec. 7. Mandate and Responsibility for Corporate Performance. - Although the day-to-day management of the affairs may be with Management, the Board is, however, responsible for providing policy directions, monitoring and overseeing Management actions, as articulated in its Charter, and other relevant legislation, rules and regulations.

These mandated functions and responsibilities include the following:

- (a) Provide the Corporate leadership subject to the rule of law, and the objectives set by the National Government through the DOE and the GCG;
- (b) Establish the vision and mission, strategic objectives, policies and procedures, as well as defining the Corporation's values and standards through:
 - Charter Statements;
 - Strategy Maps; and
 - Other control mechanism mandated by best business practices
- (c) Determine important policies that bear on the Corporate character to foster its long-term success, ensure its long-term viability and strength,

and secure its sustained competitiveness;

- (d) Determine the organizational structure of the Corporation, defining the duties and responsibilities of its Officers and employees and adopting a compensation and benefit scheme that is consistent with the GOCC Compensation and Position Classification System (CPCS) developed by GCG and formally approved by the President of the Philippines;
- (e) Ensure that personnel selection and promotion shall be on the basis of merit and fitness and that all personnel action shall be in pursuit of the applicable laws, rules and regulations;
- (f) Provide sound written policies and strategic guidelines its operating budget and major capital expenditures, and prepare the annual and supplemental budgets of the Corporation;
- (g) Comply with all reportorial requirements, as required in the Charter, as well as applicable laws, rules and regulations;
- (h) Formally adopt and conduct annually the mandated Performance Evaluation System (PES) and the Performance Scorecard and timely and accurately report the results to the GCG; and,
- (g) Ensure the fair and equitable treatment of all Stakeholders and enhancing relations with its Stakeholders.

Sec. 8. Specific Functions of the Board. - The Board shall perform the following functions:

- (a) Meet regularly, ideally at least once every month, to properly discharge its responsibilities, with independent views expressed during such meetings being given due consideration, and that all such meetings shall be properly documented or minuted;
- (b) Determine the Corporate purpose and value, as well as adopt strategies and policies, including risk management policies and programs, in order to ensure that the Corporation survives and thrives despite financial crises and that its assets and reputation are adequately protected;
- (c) Monitor and evaluate on a regular basis the implementation of corporate strategies and policies, business plans and operating budgets, as well as Management's over-all performance to ensure optimum results;
- (d) Adopt a competitive selection and promotion process, a professional development program, as well as a succession plan to ensure that the Officers have the necessary motivation, integrity, competence and professionalism;
- (e) Monitor and manage potential conflicts of interest of Members of the Board, Management, and stakeholders, including misuse of corporate assets and abuse in related party transactions;
- (f) Implement a system of internal checks and balances, which may be applied in the first instance to the Board; and ensure that such systems