



PLDT remains committed to observing its core values of accountability, integrity, fairness and transparency and maintaining the highest standards of corporate governance. This commitment is anchored on the steadfast belief that responsible business conduct and a corporate culture founded on the right values are indispensable in doing business. As the Company faced various challenges in 2014, we leaned on our values and strengthened our governance practices and processes, as articulated in our [Articles of Incorporation](#) (Articles), [By-Laws](#), [Manual on Corporate Governance](#) (CG Manual), [Code of Business Conduct and Ethics](#) (Code of Ethics), and pertinent laws, rules and regulations.

As a listed public company, PLDT adopts the corporate governance rules and regulations of the [Philippine Securities and Exchange Commission](#) (PSEC) and the [Philippine Stock Exchange](#) (PSE). PLDT also complies with certain relevant corporate governance standards set forth in the United States Securities Exchange Act, Sarbanes Oxley Act and Listed Company Manual of the New York Stock Exchange (NYSE), since its American Depositary Shares are listed and traded in the NYSE. Finally, as an associated company of [First Pacific Company Ltd.](#) (First Pacific), which is listed in the Hong Kong Stock Exchange (HKSE), PLDT also refers to the corporate governance standards of the HKSE for guidance and benchmarking purposes.

These very high standards of corporate governance underscore the Company's continuing commitment to excellence in performance as it strives to fulfil its obligations to all its stakeholders.

### **Board of Directors**

The responsibility of ensuring good corporate governance belongs, first and foremost, to our Board of Directors (the "Board"). This responsibility is a critical component in the mission of securing and promoting the long-term success and competitiveness of the Company.

Guidance in accomplishing the two-fold objective of good governance and outstanding performance is provided by our CG Manual which sets the structures for governance and allocates responsibility and authority to the various offices and bodies in the Company. For the Board, the CG Manual mandates that it shall: act within the scope of power and authority of the Company and the Board as prescribed in the Articles, By-Laws, and legislative franchise of the Company and in existing laws, rules and regulations; exercise their best care, skill, judgment and observe utmost good faith in the conduct and management of the business and affairs of the Company; and act in the best interest of the Company and for the common benefit of the Company's stockholders and other stakeholders.

## Structure and Composition

Our Board is composed of 13 qualified and competent members, each of whom has committed to the independent, diligent, responsible and judicious exercise of his/her duties.

The composition of the Board and the qualifications and grounds for disqualification of directors are provided in our Articles, By-Laws and CG Manual. Diversity and complementation of skills, expertise, experience and knowledge is desired and encouraged in order to enrich the collective processes and practices of our Board. Each member of our Board is either a business owner or leader, and/or holds senior management positions. Each Director has extensive experience in their respective fields or industries, such as telecommunications, ICT, infrastructure, power, petroleum, banking, insurance, real property development, agriculture, food manufacturing and quick-serve restaurant business. The individuals comprising the Board count on each other in the performance of the Board's functions, including the formulation of corporate vision and strategies, assessment of enterprise risks, and adequacy and effectiveness of financial reporting and internal control systems.

In keeping with the objective of promoting diversity in our Board, our CG Manual does not impose limitations or restrictions respecting age, race, gender or religious belief in reference to the qualifications of our directors. With regard to directorships of individual directors in other stock or non-stock corporations, our Board adheres to a performance-based standard in determining whether other directorships compromise the capacity of a director to serve or perform his/her duties and responsibilities to the Company diligently and efficiently. In this way, differences in individual capabilities and the nature and demands of directorships in other companies are given due consideration in determining fitness and capacity to serve in our Board, rather than imposing a strict quantitative limit on other directorships. Independent directors, however, may not be elected, as such, to more than five listed or public companies comprising the PLDT conglomerate (*i.e.*, its parent company, subsidiaries or affiliates). Our Board, through the Governance and Nomination Committee, ensures the diversity of its membership and the selection of competent and capable Board members using the Company's [\*Guidelines on the Search, Screening and Selection of Directors\*](#) and related Screening Checklist which contains, among others, the criteria and



Manuel V. Pangilinan  
Chairman of the Board



Napoleon L. Nazareno  
President and CEO



Helen Y. Dee  
Non-Executive Director



James L. Go  
Non-Executive Director



Ray C. Espinosa  
Executive Director



Setsuya Kimura  
Non-Executive Director



Hideaki Ozaki  
Non-Executive Director



Artemio V. Panganiban  
Independent Director



Ma. Lourdes C. Rausa-Chan  
Executive Director



Pedro E. Roxas  
Independent Director



Tony Tan Caktiong  
Non-Executive Director



Alfred V. Ty  
Independent Director



Juan B. Santos  
Non-Executive Director

qualifications for directorship and a matrix on the skills, expertise and experience relevant to the responsibilities of the Board.

Our CG Manual requires that at least 20% of the membership of our Board of Directors, and in no case less than two members thereof must be independent directors<sup>1</sup>. Three independent directors in the persons of Mr. Pedro E. Roxas, Mr. Alfred V. Ty and Former Chief Justice Artemio V. Panganiban are currently serving in our Board. All of these independent directors were selected pursuant to the specific independence criteria set out under applicable laws and rules, our By-Laws and CG Manual. Under our CG Manual, an independent director is, broadly, “a person who is independent of Management and who, apart from his fees and shareholdings, is free from any business or other relationship with the Company which could or reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director of the Company.”<sup>2</sup> Our independent directors are subject to an initial term limit of five years. After completion of five consecutive or cumulative years of service, an independent director shall no longer be eligible for re-election as such, unless said independent director has undergone a “cooling-off” period of two years. Thereafter, he/she may again qualify for election as an independent director annually, for five more consecutive or cumulative years, after which he/she is perpetually barred from being elected as an independent director. The application of this term limit is reckoned from January 2, 2012.

In 2014, there were only three directors who held executive positions in the Company: Mr. Napoleon L. Nazareno as President and Chief Executive Officer (CEO), Atty. Ma. Lourdes C. Rausa-Chan as Corporate Secretary, General Counsel and Chief Governance Officer and Atty. Ray C. Espinosa, who remains a consultant and serves as head of PLDT Regulatory Affairs and Policies Office following his retirement from the Company in February 2014.

The position of Chairman of the Board is separate from that of the CEO. PLDT Chairman Manuel V. Pangilinan and PLDT President and CEO Napoleon L. Nazareno nonetheless share the responsibility of ensuring good corporate governance and principled performance in their respective areas of responsibility and influence. These two individuals are unrelated.

Except for our executive directors, our directors do not receive stock options, performance incentives, bonuses or any other form of compensation from the Company. However, all of our directors are entitled to a *per diem* of Php250 thousand for attendance in each Board meeting and Php125 thousand for attendance in each Board Committee meeting.

#### *Board Responsibilities*

The Board has a duty to keep abreast with the statutory and regulatory requirements affecting the Company and its operations as well as industry developments and trends. In this regard, at the start of the service of a new director, the Chairman, President and CEO, Chief Financial Officer, Corporate Secretary and Chief Governance Officer give a newly appointed director a briefing on the Company’s structure, business, operating and financial highlights, responsibilities of the Board and its Committees and how each operates. The new director is also furnished with copies of all relevant information about Company policies applicable to the directors, including the Company’s Articles, By-Laws, Annual Report, CG Manual, Code of Ethics, and the charters of the Board Committees. Updates on business and governance policies and requirements principally from the PSEC, PSE, U.S. Securities and Exchange Commission (US SEC), and NYSE, and new laws applicable or relevant to the Company and its business, particularly on financial reporting and disclosures and corporate governance, are presented in Board meetings and/or furnished to the directors.

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<sup>1</sup> This is substantially the same requirement in the PSEC’s Revised Code of Corporate Governance (MC No. 6 Series of 2009).

<sup>2</sup> More specific independence criteria are enumerated in Annex A of our CG Manual.

PLDT also conducts regular and continuing training for our directors as well as knowledge-sharing and updating on compliance, corporate governance and business ethics matters. PLDT organizes Annual Corporate Governance Enhancement Sessions which provide an opportunity for our leadership to interact with international experts and keep abreast with global developments and best practices in corporate governance and business ethics. All of the current directors have undergone corporate governance orientation and have attended several of the nine corporate governance enhancement sessions organized since 2007. In 2014, two sets of Enhancement Sessions were organized and conducted for our Board. These two Enhancement Sessions were approved by the PSEC as In-House Corporate Governance Training Programs within the scope of PSEC Memorandum Circular No. 13, Series of 2013 (MC 13). All of our directors have complied with the required corporate governance training for the year 2014 under MC 13.



*Philippine Securities and Exchange Commission Chairperson Teresita J. Herbosa speaking before the PLDT Board of Directors on **What to Expect from the SEC.***

To enable our directors to fully apprise themselves of relevant and material information, our CG Manual assures that our directors, both new and currently serving, have access to independent professional advice, at the Company's expense, as well as access to Management as they may deem necessary to carry out their duties.

Our Board meets, more or less, on a monthly basis in accordance with the schedule of meetings that our Board sets at the beginning of the year. At least one meeting is devoted to discussions with senior management on the strategic plans and budget, and the enterprise risk report prepared by senior management through the Group Enterprise Risk Management Department (ERMD). Our Board reviews the Company's Vision and Mission together with senior management. Once every quarter, our Board reviews the quarterly financial reports. Periodic reviews of the reports of Board Committees, business operations updates from the heads of our business segments and network and technology strategic plans are likewise performed.

The Board undertakes to respect, uphold and facilitate the exercise of the stockholders' rights such as: the right to vote; pre-emptive right; right to inspect corporate books and records including minutes of Board meetings and stock registries, subject to certain conditions; right to receive information which the Company is required to disclose pursuant to the Corporation Code or Securities Regulation Code; right to dividends; and appraisal right.

Pursuant to its aforementioned duty, the Board promotes transparency and fairness in the conduct of the annual and special stockholders' meetings of the Company. Stockholders are encouraged to personally attend such meetings, raise questions, and exercise their voting rights. Within a reasonable period of time before the meeting, stockholders are apprised of their right to appoint a proxy, in case they could not personally attend such meetings and give their voting instructions in the proxy form provided. Appropriate steps to remove excessive or unnecessary costs and other administrative impediments to stockholders' participation in annual or special stockholders' meetings, whether in person or by proxy, are undertaken. Relevant and timely information is made available to the stockholders in printed or digital form and through the Company's website to enable them to make a sound judgment on all matters tabled



for their consideration or approval<sup>3</sup>. The Board also ensures the timely disclosure and appropriate filing with the PSEC, PSE and, as applicable, US SEC and NYSE, of material information and/or transactions that could potentially affect the market price of the Company's shares and such other information which are required to be disclosed pursuant to relevant laws and regulations.

Our Board looks to ensure the continuity of executive leadership as a critical factor in sustaining the success of the PLDT Group. PLDT's leadership succession planning and development process continued in 2014. This enterprise-wide process covers senior management positions, including the President and CEO. The Board's involvement in leadership succession planning and development is performed through its Executive Compensation Committee, which reviews and updates the criteria for employment and promotion, as well as any training and development plans for senior management, keeps track of their performance and development, and reviews their potential career paths.

Our Board also leads the Company's corporate social responsibility (CSR) initiatives. Through the Board, the Company's resources and expertise are harnessed to respond to pressing societal and developmental issues. PLDT, by itself or through the PLDT Smart Foundation, has continuing projects in the areas of environment, education, and disaster response and rehabilitation. PLDT also continues to leverage on its business expertise to develop and implement innovative projects in nation building, health, community and livelihood development, and youth development and sports.



*PLDT Chairman Manuel V. Pangilinan participates in one of PLDT's many CSR activities.*

Our directors take part in an annual assessment process which reviews and evaluates the performance of the whole Board, the Board Committees and the individuals that comprise these bodies. The assessment also includes an opportunity to evaluate the performance of the CEO. This process has proven to be useful in identifying the Board's strengths and areas for improvement and in eliciting individual directors' feedback and views on the Company's strategies, performance and future direction.

Our Board held 13 meetings in 2014. The Chairman of the Board, the President and CEO, and seven other directors attended all Board meetings. Our three independent directors were present in all the meetings. In each meeting at least two-thirds of the Board members was present and all matters for approval in each meeting were acted upon based on the votes of at least two-thirds of the Board membership. Our non-executive directors held a meeting among themselves without the executive directors on November 4, 2014.

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<sup>3</sup> The Company's tabulation, registration and reporting system has been reviewed and tested by an independent third party in accordance with the Philippine Standards on Related Services 4400 Agreed Upon Procedure issued by the Auditing Standards and Practices Council and the independent third party checked the completeness and accuracy of encoded proxies and voting instructions as well as the completeness and accuracy of the voting and attendance reports generated by the system at the annual meeting of stockholders.

Name of Director	Jan. 28	Mar. 4	Apr. 1	May 6	Jun 10	Jun 10**	Jun 10	Jul 8	Aug. 5	Sep. 30	Nov. 4	Dec. 2	Dec 10	Total	%age
Manuel V. Pangilinan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Napoleon L. Nazareno	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Helen Y. Dee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	x	11/13	85
Ray C. Espinosa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	12/13	92
James L. Go	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Setsuya Kimura	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Hideaki Ozaki	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	11/13	85
Artemio V. Panganiban*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Ma. Lourdes C. Rausa-Chan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Pedro E. Roxas*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Juan B. Santos	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Tony Tan Caktiong	x	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	11/13	85
Alfred V. Ty*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
* Independent director															
** Three meetings were conducted on June 10, 2014, a regular Board meeting, the annual stockholders' meeting and the organizational meeting of the Board.															

All of the directors were present in the Annual Stockholders' Meeting held on June 10, 2014 and consequently, the respective Chairmen of the Audit, Executive Compensation, and Governance and Nomination Committees were present as well. All of the directors attended more than 75% of the meetings. The total amount of *per diem* provided to the directors for their attendance in Board meetings in 2014 was Php 34 million<sup>4</sup>.

## Board Committees

### Advisory Committee

Our Board is ably assisted by an Advisory Committee. The diversity of the expertise, knowledge and experience of these advisors serves to complement that of the Board. Members of the Advisory Committee attend Board meetings and provide guidance and suggestions, as necessary, on matters deliberated upon during Board meetings. The total *per diem* given to the members of the Advisory Committee for their attendance in Board meetings in 2014 was Php 15.5 million.

Name of Director	Jan. 28	Mar. 4	Apr. 1	May 6	Jun 10	Jun 10*	Jun 10	Jul 8	Aug. 5	Sep. 30	Nov. 4	Dec. 2	Dec 10	Totals	%age
Oscar S. Reyes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Roberto R. Romulo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	12/13	92
Benny Santoso	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Washington Z. SyCip	✓	✓	✓	✓	x	x	x	✓	✓	✓	✓	✓	✓	10/13	77
Orlando B. Veja	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
Christopher H. Young	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13	100
* Three meetings were conducted on June 10, 2014, a regular Board meeting, the annual stockholders' meeting and the organizational meeting of the Board.															

<sup>4</sup> Only one *per diem* was given to directors for the three meetings held on June 10, 2014.

PLDT's other Board Committees, namely the Audit Committee, the Governance and Nomination Committee, the Executive Compensation Committee, and the Technology Strategy Committee, function in accordance with their respective charters. These committees provide valuable assistance in the performance of the Board's responsibilities and aid in ensuring compliance with the principles of good corporate governance.

These committees have been granted by their respective charters with the appropriate and necessary resources and authority to discharge their responsibilities. This includes the authority to engage and obtain advice from external counsels, experts or consultants as they may deem appropriate, without need for Board approval. The Chairman of any of the committees or any of the committee members or advisors may meet separately with Management to discuss any matter that the committee or its members believe should be discussed privately. Each committee may also request any officer, executive or employee of the Company, the Company's external counsel or third party consultants to attend a meeting of the committee or to meet with any member, advisor or consultant of the said committee.

#### *Audit Committee (AC)*

The AC provides support to the Board in discharging its oversight responsibilities for the integrity of the Company's accounting and financial reporting principles and policies, and system of internal controls, as well as the integrity of the Company's financial statements and the independent audit thereof; compliance with legal and regulatory requirements; assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks; and audit process, and the performance of the Company's internal audit organization and external auditor (including the external auditor's qualifications and independence).

The AC has clear oversight responsibilities and powers over the following areas:

- external auditors;
- internal auditors;
- financial reporting principles and policies and system of internal control;
- enterprise risks; and
- legal and regulatory compliance.

The AC is composed of three independent directors as voting members, and four non-voting advisors. Each member is financially literate and one of the advisors is a certified public accountant with financial management expertise. The charter of the AC may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Audit%20Committee%20Charter.pdf>

The AC's activities for 2014 consisted of the following.

With respect to the external auditor SyCip, Gorres, Velayo and Co (SGV &Co.), a member practice of Ernst & Young Global Limited (E&Y), the AC discussed, reviewed and approved, or noted:

- SGV & Co.'s report on the results of their integrated audit of PLDT's and its subsidiaries' 2013 financial statements prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and International Financial Reporting Standards (IFRS), and of the internal controls over financial reporting (ICFR);
- SGV & Co.'s required communications (to the AC) including their independence from PLDT, within the meaning of the Revised Securities Act of the PSEC and the US SEC;

- The summary of audit, audit-related and non-audit services and fees of SGV & Co. and E&Y that were approved by the AC during 2013;
- The non-audit engagements for PLDT and its subsidiaries in 2014;
- SGV & Co.'s integrated plan for the audit of PLDT's and its subsidiaries' 2014 financial statements and review of ICFR; and
- SGV & Co.'s status report on the integrated audit of 2014 financial statements and ICFR.

As regards the internal audit group, the AC discussed, reviewed and approved, or noted:

- The Internal Audit and Fraud Risk Management Group (IAFRMG)'s performance report for the year 2013, IAFRMG Head's statement of compliance with the International Standards for the Professional Practice of Internal Auditing, and required confirmation of the organizational independence of PLDT Internal Audit organization;
- The retention of the existing PLDT Internal Audit Charter until the next review in 2015;
- PLDT's Internal Audit Plan for 2014 (original and updated), and for 2015;
- Internal Audit's report on PLDT Group's Sarbanes-Oxley – Section 404 (SOX 404) Compliance – Management's Overall Assessment and Conclusions as of December 31, 2013, the PLDT Group's SOX 404 compliance approach for 2014, and Periodic status reports from Internal Audit on the PLDT Group's SOX 404 readiness and compliance as of year-end 2013 and as of year-end 2014;
- PLDT's transition to Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s 2013 Updated Internal Control – Integrated Framework (COSO IC-IF 2013); and
- The major IAFRMG activities and accomplishments, including the internal audit organizational updates.

Relative to financial reporting and controls, the AC:

- Approved the reissued Consolidated Financial Statements of PLDT as of December 31, 2012, December 31, 2011, and January 1, 2011 and for each of the three years in the period ended December 31, 2012, 2011 and 2010 after effecting the new accounting standards that became effective January 1, 2013, exclusively for the purpose of inclusion in the planned retail bond offering circular;
- Reviewed with PLDT Finance officers and SGV & Co. and approved PLDT's audited financial statements for 2013 prepared in accordance with PFRS and IFRS and the report of SGV & Co. on the final results of its integrated audit of 2013 PFRS and IFRS financial statements and ICFR and the PLDT Group's 2013 Annual Report on Form 17-A (for PSEC filing) and on Form 20-F (for US SEC filing);
- Reviewed with the Finance officers and approved PLDT's unaudited consolidated financial results and reports for the three months ended March 31, 2014, the six months ended June 30, 2014, and the nine months ended September 30, 2014; and
- Discussed with Finance officers and the General Counsel comments from the US SEC regarding PLDT's Form 20-F and PLDT's draft response thereto.

With regard to governance, general internal controls and risk management, the AC:

- Conducted the self-evaluation of the PLDT Audit Committee's performance for the year 2013 and also went through an orientation on U.S. laws that are relevant to the Audit Committee function;
- Reviewed and discussed with the Corporate Secretary, General Counsel and Chief Governance Officer the Information Statement/ Proxy Form, and the status of Company's compliance with



regulations and applicable laws, and updates on significant legal matters and the Expanded Whistleblowing Status Reports on whistleblower complaints; and

- Reviewed and noted the Group Enterprise Risk Management (ERM) Officer's update reports on PLDT Group's enterprise risk management activities and discussed with the Group ERM Officer the PLDT Group's Top Ten Risks for 2014, and the results of Internal Audit's Group-wide Review of Enterprise Risk Management Process.

The AC also conducted discussions with the PLDT business and operational unit heads regarding global Information Technology (IT) security events in 2013 and 2014 and the PLDT Group IT's measures to address these threats, PLDT's customer experience concerns, relevant tax rulings and updates on regulatory matters. Finally, the AC issued periodic written reports to the Audit Committee of First Pacific regarding significant items discussed during the PLDT AC meetings held in 2014.

The AC had eight regular meetings and two special meetings for the year 2014. Members of the AC are each entitled to a per diem of Php125 thousand for every meeting attended and a total of Php 7.5 million was paid as *per diem* to its members and advisors who attended the meetings.

Members	Jan 28	Mar 3	Apr 1	Apr 11**	May 5	Aug 4	Sep 30	Oct 17**	Nov 3	Dec 1	Total
Pedro. E. Roxas*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Artemio. V. Panganiban*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Alfred. V. Ty*	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	9/10
<b>Non-Voting Members</b>											
Corazon. S. Dela Paz-Bernardo	✓	✓	✓	--	✓	✓	✓	--	✓	✓	8/8
Roberto R. Romulo	✓	✓	✓	--	x	✓	✓	--	✓	✓	7/8
James L. Go	✓	✓	✓	--	✓	✓	✓	--	✓	✓	8/8
Setsuya. Kimura***	✓	✓	✓	--	✓	✓	✓	--	✓	✓	8/8
*Independent Director											
**Special meetings of the AC.											
*** Attended the special meeting on October 17, 2014 as an observer.											

#### *Governance and Nomination Committee (GNC)*

In the performance of its governance function, the GNC assists the Board in developing and implementing the Board's performance evaluation process; reviews and assesses the adequacy and effectiveness of the Company's corporate governance structures, principles and policies; establishes the appropriate evaluation system for monitoring and assessing compliance with the corporate governance policies; oversees the continuing corporate governance communication and education programs; and considers, resolves and/or submits its recommendations to the Board on corporate governance issues.

With respect to its nomination function, the GNC is responsible for the following nomination-related matters: pre-screening nominees for directors and qualifications of independent directors; preparing a recommendation to the Board on the final list of qualified nominee directors and independent directors; recommending qualified directors or independent directors in case of a vacancy; recommending qualified persons as members of Board Committees; and evaluating qualifications of persons nominated for Board-appointed positions.

The GNC is composed of five voting members, three of whom are independent directors and the other two are non-executive directors. The GNC also has two non-voting members: the Human Resources

Group Head and the Chief Governance Officer of the Company. The charter of the GNC may be accessed and downloaded from the PLDT website through the following link:

<http://www.pldt.com/docs/default-source/corporate-governance-files/committee-charter/governance-and-nomination-committee-charter.pdf?sfvrsn=2>

In the performance of its governance function, the GNC's activities in 2014 included the following:

- Reviewed and assessed the Code of Ethics and Conflict of Interest Policy, and determined that the principles, values and procedures embodied therein remain sound and continue to be appropriate for the Company and hence, do not require any amendment or revision. The GNC, however, approved recommendations to strengthen their implementation, including the continuing education and training sessions, monitoring of the implementation of corporate governance policies, thorough and comprehensive investigation of whistleblower complaints, and adoption of enabling policies to address identified risk areas;
- Reviewed and approved the content for the corporate governance training and continuing education program, including the Corporate Governance Enhancement Sessions for the Board of Directors and senior and middle management, and approved the theme "Good Governance Means Good Business" and related creative concepts for the 2015 corporate governance communication materials;
- Reviewed and noted the results of the PLDT Governance and Ethics Survey, including some revisions that were undertaken, such as the addition of new questions/items, updates on the development of the online periodic Conflict of Interest Disclosure System and Conflict of Interest Disclosures of key personnel, and the inclusion of the periodic renewal of the Corporate Governance Pledge in the online Conflict of Interest Disclosure System;
- Assisted the Board in implementing the Board Assessment for 2013 performance, which included the performance evaluation of the Board Committees and Individual Directors; and
- Reviewed and approved or noted the development and implementation of the Periodic Disclosure of Gifts, Entertainment and Sponsored Travel pursuant to the Policy on Gifts, Entertainment and Sponsored Travel, the development of an Online Gifts Policy Disclosure System, the Expanded Whistleblowing cases and how these were handled, including those of the PLDT subsidiaries, Corporate Governance Report, the PSE Corporate Governance Disclosure Report for year 2013 as well as the Company's compliance reports to various CG Reports/Scorecards/Awards, such as the PSEC Corporate Governance Guidelines Disclosure and the ASEAN CG Scorecard.

In the performance of its nomination functions, the GNC's activities in 2014 included the following:

- Pre-screened nominees for directors and independent directors, and submitted to the Board the final list of qualified nominees for director and independent director for election at the Annual Stockholders' Meeting held on June 10, 2014;
- Reviewed and confirmed HR's evaluation of the qualifications of officers and recommended their re-appointment as such at the Organizational Meeting of the Board of Directors held on June 10, 2014; and
- Reviewed and confirmed HR's evaluation of proposed promotions to officer rank for approval by the Board.

Finally, the GNC submitted the following reports to the Board of Directors: (a) Consolidated Report on the 2013 Board and Board Committees Assessment; (b) GNC Annual Report of Activities for 2013; and (c) GNC Self-Assessment for 2013 Performance.

The GNC held three meetings in 2014 and a total of Php 2.375 million was paid as *per diem* to its members who attended the meetings.

Members	Mar 28	Jul 30	Nov 5	Total
Manuel V. Pangilinan	✓	✓	✓	3/3
Artemio V. Panganiban*	✓	✓	✓	3/3
Pedro E. Roxas*	✓	✓	✓	3/3
Alfred V. Ty*	✓	--	--	1/3
Setsuya Kimura	✓	✓	✓	3/3
<b>Non-voting members</b>				
M.G. Jimenez	✓	✓	✓	3/3
Ma. Lourdes C. Rausa-Chan	✓	✓	✓	3/3
<b>*Independent Directors</b>				

#### *Executive Compensation Committee (ECC)*

The ECC's primary purposes or functions are to: provide guidance to and assist the Board in developing a compensation philosophy or policy consistent with the culture, strategy and control environment of the Company; oversee the development and administration of the Company's executive compensation programs, including long term incentive plans and equity based plans for officers and executives; and assist the Board in the performance evaluation of and succession planning for officers, including the CEO, and in overseeing the development and implementation of professional development programs for officers.

The ECC is composed of five voting members, three of whom are independent directors, while the other two are non-executive directors. The ECC also has one non-voting member, who is the head of the Human Resources Group of the Company. The charter of the ECC may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Executive%20Compensation%20Committee%20Charter.pdf>

In 2014, the ECC discussed and approved the payout of the 2013 Variable Pay for Officers and Executives, the 2014 Variable Pay Targets and the corresponding Variable Pay payout Levels, the proposed new salary structure for Officers and Executives as recommended by Management retroactive to January 1, 2014, and the 2014 Merit Increase for Officers and Executives. It also reviewed the compensation structure and levels for Board members and endorsed the proposed new Board meeting fee or *per diem* of Php250 thousand per meeting and Board Committee meeting fee or *per diem* of Php125 thousand per meeting to the Board for approval.

The ECC held three meetings in 2014 and a total of Php 2.125 million was paid as *per diem* to its members who attended the said meetings.

Members	Mar 3	Jul 29	Sep 29	Totals
Manuel V. Pangilinan	✓	✓	✓	3/3
Artemio V. Panganiban *	✓	✓	✓	3/3
Pedro E. Roxas*	✓	✓	✓	3/3
Alfred V. Ty*	x	✓	✓	2/3
Setsuya Kimura	✓	✓	✓	3/3
Menardo G. Jimenez Jr. (non-voting member)	✓	✓	✓	3/3
*Independent Directors				

#### *Technology Strategy Committee (TSC)*

The TSC's primary purposes are to assist and enable the Board to: review and approve the strategic vision for the role of technology in the Company's overall business strategy, including the technology strategy and roadmap of the Company; fulfill its oversight responsibilities for the Company's effective execution of its technology-related strategies; and ensure the optimized use and contribution of technology to the Company's business and strategic objectives and growth targets.

The TSC is composed of seven members. Under the charter of the TSC, at least one member of the TSC must have at least a general knowledge or understanding of the technologies relevant to the Company's line of business. A copy of the charter of the TSC may be viewed and downloaded from the PLDT website through the following link:

<http://www.pldt.com.ph/about/management/Documents/Technology%20Strategy%20Committee%20Charter.pdf>

In 2014, the TSC discussed the Current State of the Network, Improving Quality of Experience, the Network and Technology Roadmap, Platforms and Service Capabilities, the Status and Business Impact of Major Capital Expenditures Programs in 2014, the Technology Programs and Estimated Capital Expenditures for 2015, the Intelligent Network, and Service Delivery Platforms. Among the items presented and discussed were operations initiatives to improve Customer Experience on availability and quality of service, management of operational expenses, and strengthening the network in preparation for extreme weather conditions and in the midst of climate change.

The TSC had three meetings in 2014 and a total of Php 2.425 million was given as *per diem* to its members who attended the meetings.

Members	Aug 6	Sep 23	Nov 25	Totals
Manuel V. Pangilinan	✓	✓	x	2/3
Napoleon L. Nazareno	✓	✓	✓	3/3
Ray C. Espinosa	✓	✓	✓	3/3
Setsuya Kimura	✓	✓	✓	3/3
James L. Go	✓	✓	✓	3/3
Oscar S. Reyes	✓	✓	✓	3/3
Orlando B. Vea	✓	✓	✓	3/3

## **Executive Implementation**

Our Board exercises oversight on Management in accordance with the standards set forth in our CG Manual. The roles of Management and other offices and posts involved in ensuring implementation of the corporate governance policies and requirements are discussed below.

### *President and Chief Executive Officer*

The President and CEO provides leadership for Management in developing and implementing business strategies, plans and budgets. He ensures that the business and affairs of the Company are managed in a sound and prudent manner and that operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts. The President and CEO, with the assistance of the rest of PLDT's Management, also has the responsibility to provide the Board with a balanced, understandable and accurate account of the Company's performance, financial condition, results of operations, and prospects, on a regular basis.

### *Corporate Secretary*

The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and Board Committees, as well as other official records of the Company. The Corporate Secretary is expected to work fairly and objectively with the Board, Management and stockholders and shall inform the directors of the schedule and agenda of Board meetings and ensure that Management provides the Board with complete and accurate information that will enable the directors to arrive at intelligent or informed decisions on matters that require their approval. The Corporate Secretary is expected to attend all Board meetings, except for exceptional and justifiable causes that prevent attendance, and must ensure that all Board procedures, rules and regulations are strictly followed by the directors. The current Corporate Secretary is also the Chief Governance Officer of the Company.

### *Internal Audit Organization*

Our internal audit organization determines whether our structure of risk management, control and governance processes, as designed and represented by Management, are adequate and functioning to ensure that:

1. Risks are appropriately identified, managed, and/or reported;
2. Significant financial, managerial, and operating information are accurate, reliable and timely;
3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
4. Resources are acquired economically, used efficiently and adequately protected;
5. Programs, plans and objectives are achieved;
6. Quality and continuous improvement are fostered in our control processes; and
7. Significant legislative or regulatory issues impacting us are recognized and addressed appropriately.

To provide for the independence of the internal audit organization, its personnel report to the head of the internal audit organization, being the Chief Audit Officer/Internal Audit Head, who reports functionally to the AC and administratively to the President and CEO. The Chief Audit Officer is accountable to Management and the AC in the discharge of his duties and is required to:

1. Provide annually an assessment on the adequacy and effectiveness of our processes for controlling our activities and managing our risks;
2. Report significant issues related to the processes of controlling our activities, including potential improvements to those processes, and provide information concerning such issues; and



3. Periodically provide information on the status and results of the annual internal audit plan and the sufficiency of our internal audit organization's resources.

The Company's internal audit organization has a charter approved by the AC that complies with the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors, in the discharge of its scope of work and responsibilities.

#### *External Audit*

The Company's external auditor is appointed by the AC which reviews its qualifications, performance and independence. To ensure objectivity in the performance of its duties, the external auditor is subject to the rules on rotation and change, every five years; general prohibitions on hiring of staff of the external auditor; and full and appropriate disclosure and prior approval by the AC of all audit and non-audit services and related fees for such services. Approval of non-audit work by the external auditor is principally tested against the standard of whether such work will conflict with its role as an independent auditor or would compromise its objectivity or independence as such. As mentioned earlier, our external auditor is SGV & Co., a member practice of E&Y.

#### *Enterprise Risk Management*

Also working in coordination with our internal audit organization and AC is the PLDT Group ERMD. The complex and dynamic business environment that the PLDT Group operates in gives rise to a variety of risks. The ERMD is in charge of managing an integrated risk management program with the goal of identifying, analysing and managing the PLDT Group's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus sustain competitive advantage. The ERM process used by the ERMD is based on the ISO 31000 standard on risk management. The implementation of the ERM process ensures that high-priority risks are well understood and effectively managed across all functions and units within the PLDT Group.

#### *Chief Governance Officer*

Our corporate governance compliance system established in the CG Manual includes the designation by the Board of a Chief Governance Officer who reports to the Chairman of the Board and the GNC. The primary responsibilities of the Chief Governance Officer include monitoring compliance with the provisions and requirements of corporate governance laws, rules and regulations, reporting violations and recommending the imposition of disciplinary actions, and adopting measures to prevent the repetition of such violations.

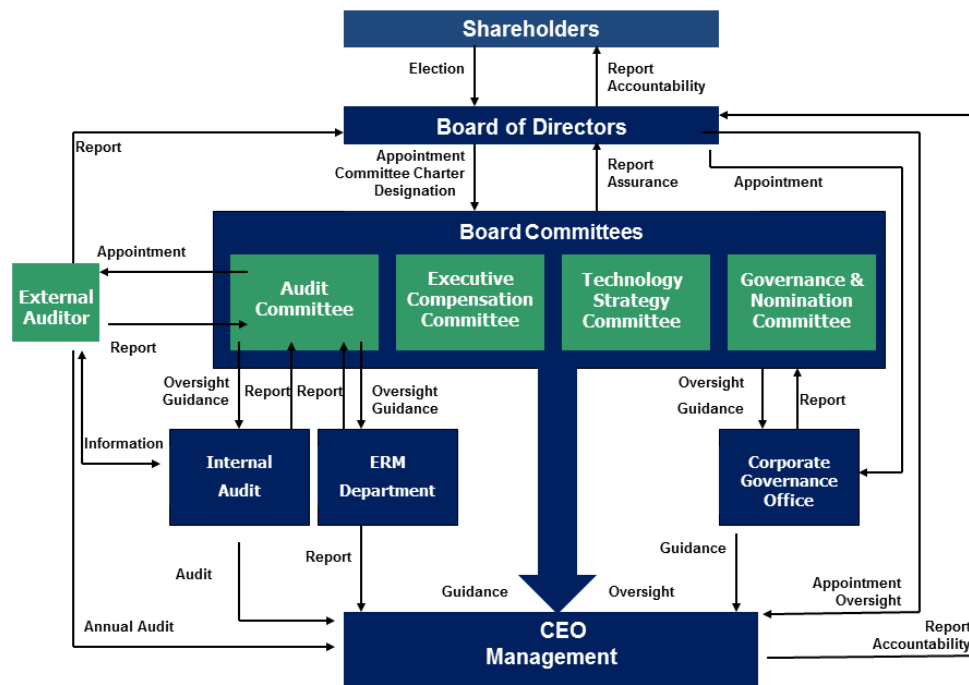
In addition, the Chief Governance Officer assists the Board and the GNC in the performance of their governance functions, including their duties to oversee the formulation or review and implementation of the corporate governance structure and policies of the Company, the establishment of an evaluation system to verify and measure compliance with the CG Manual in relation to related laws, rules and regulations, and to oversee the conduct of a self-assessment of the performance and effectiveness of the Board, the Board Committees, and individual Board members in carrying out their functions.

#### *Corporate Governance Office*

PLDT's corporate governance initiatives comprise three stages: compliance, competence and eventually, culture. It is the responsibility of the Corporate Governance Office, through the supervision and direction provided by the Chief Governance Officer to ensure progress through these three stages by attending to the three task areas of engineering, education and enforcement. Hence, the CGO is responsible for the continuing development, drafting, issuance and review of appropriate corporate governance policies, addressing reports received through the whistleblowing facility, responding to queries and providing opinions or guidance on corporate governance matters to operating units, initiating enforcement actions to ensure compliance with corporate governance policies, and maintaining a corporate governance education

and communication program that sees to the development of the proper knowledge, skills, attitudes, and habits that would promote observance of corporate governance policies and adherence to our core values.

All of the offices and bodies described above have been given the appropriate authority and responsibility through the PLDT CG Manual. The chart below shows the operational relationships between or among these offices and bodies.



To access our CG Manual, please click on the link below.

<http://www.pldt.com/docs/default-source/corporate-governance-files/cg-manual-/pldt-manual-on-corporate-governance-.pdf?sfvrsn=0>

## Policies and Practices

### *Code of Ethics*

Our CG Manual establishes the framework and structure of our corporate governance program. It is our Code of Ethics, however, that animates our professional conduct principally and calls on everyone in the Company to live out and observe the values of accountability, integrity, fairness and transparency in order to promote and establish a culture of good corporate governance. It provides standards that govern and guide all business relationships of PLDT, its directors, officers and employees.

Some of the key standards in the PLDT Code of Ethics are stated below.

- Compliance with applicable laws, rules and regulations;
- Ethical handling of conflicts of interest, corporate opportunities and confidential information;
- Protection and proper use of Company assets;
- Fair dealing with employees, customers, service providers, suppliers, creditors and competitors;
- Compliance with reporting and disclosure obligations to the relevant regulators and to investors;
- Compliance with disclosure and financial reporting controls and procedures;

- Assessment and management of risks involved in business endeavors; and
- Adoption of international best practices of good corporate governance in the conduct of the Company's business.

To access the Code of Ethics, please click on the link below.

<http://pldt.com/docs/default-source/policies/pldt-code-of-business-conduct-and-ethics.pdf?sfvrsn=4>

The Company, through our Board, has adopted enabling policies which provide specific guidelines that complement the Code of Ethics.

#### *Conflict of Interest Policy*

This policy aims to ensure that work-related actions of PLDT's directors, employees and consultants are based on sound business principles and judgment devoid of bias or partiality. It enjoins all of them to be aware of the possibility of such bias and partiality in dealings with various entities or individuals in the course of or in relation to their work. The policy likewise mandates that if they find themselves in a possible conflict of interest situation, they should promptly disclose the matter to the relevant authorities. If warranted, the person concerned should also obtain appropriate approvals and inhibit himself from any action, transaction or decision involving an existing or potential conflict of interest.

In 2014, PLDT launched an automated system for periodic Conflict of Interest Disclosures which now allows all officers, executives and employees to make on-line disclosures regarding potential or actual conflicts of interest or expressly affirm that they have no updates to their conflict of interest disclosures. The system will facilitate the approval and monitoring of disclosures from all PLDT personnel.

PLDT continues to be guided by its *Guidelines on the Proper Handling of Related Party Transactions* (RPT Guidelines). The RPT Guidelines provides the process of review, approval and disclosure of the Company's Related Party Transactions (RPT). RPTs are reviewed and approved by appropriate authorities designated. The review's principal focus is on whether an RPT is on arm's length terms and the transaction is in the best interest of PLDT and its stakeholders, as a whole, considering all relevant circumstances. Material RPTs are also reviewed by the AC, which is composed entirely of independent directors, and approved by the Board. The RPT Guidelines provides the Board with an option to require submission of approved RPTs to stockholders for their further consideration and ratification. The Head of Financial Reporting and Controllershship Sector, in coordination with the Company's Disclosure Committee, shall be responsible for the disclosure of RPTs in the relevant financial reports of the Company as required under Philippine Accounting Standard 24 and other applicable disclosure requirements.

#### *Policy on Gifts, Entertainment and Sponsored Travel*

This policy provides safeguards so that the custom of giving gifts is handled in accordance with our core values. It aims to prevent the occurrence of situations or actions that could significantly affect objective, independent or effective performance by directors, officers, employees and consultants of their duties and responsibilities to the Company. Specifically, it prohibits the solicitation of gifts, sponsored travel, and entertainment from third parties. Receipt and acceptance of gifts voluntarily given by such third parties are handled according to this policy. In connection with this, PLDT strengthened its monitoring of gifts, entertainment and travel in 2014 by requiring all personnel to submit to their Group Heads, periodic disclosures of offers and/or acceptance of such.

#### *Supplier/Contractor Relations Policy*

This policy seeks to ensure that the Company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services. The policy also seeks to maintain PLDT's reputation for equal opportunity and honest treatment

of suppliers in all business transactions. It establishes clear rules for arm's length transactions and fair treatment of prospective and existing suppliers with the objective of always obtaining the best value for the Company. The policy specifically adopts the processes of vendor accreditation and competitive bidding as the general rule to ensure that contracts are awarded only to qualified and duly-accredited suppliers and vendors who offer the best value for money for PLDT's requirements.

In relation to this policy, in 2014 PLDT issued its *Policy on Vendor Sanctions*, which established a cross-functional vendor compliance committee that handles the cases involving vendors and provides a more balanced monitoring of vendor compliance.

#### *Expanded Whistleblowing Policy (EWB Policy)*

This policy provides guidelines on handling employee disclosures or complaints for violation of the CG Manual, Code of Ethics, Conflict of Interest Policy, Policy on Gifts Entertainment and Sponsored Travel, and Supplier/Contractor Relations Policy as well as questionable accounting and auditing matters and violations of the Personnel Manual. The EWB Policy protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint.

PLDT maintains a Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. All employees and stakeholders who come forward in good faith to report violations or any act that may be considered as contrary to the Company's values may submit a complaint or disclosure on such violations to the Corporate Governance Office (CGO). Anonymous complaints are allowed and duly processed.

Upon receipt of a complaint or disclosure by the CGO, a preliminary evaluation is conducted to determine the veracity and plausibility of the allegations contained therein, as well as the appropriate investigating unit to which the case shall be assigned for further action. The CGO monitors the developments in said cases and ensures appropriate reporting to the AC, the GNC, or any other relevant committee, body or authority on the results of the investigations and the prompt referral of findings to the units concerned. In all processes and activities related to a whistleblowing complaint or disclosure, utmost confidentiality is observed in order to ensure the integrity of the process and/or protect the parties, employees or offices who are allegedly involved.

For 2014, there were five new whistleblowing complaints received by the CGO. As at December 31, 2014, five cases were pending, including a complaint received in 2013, while three cases were deemed closed, including complaints received in previous years. The complaints covered allegations of violation of the Code of Ethics, Conflict of Interest Policy, Policy on Gifts, Entertainment and Sponsored Travel and Supplier/Contractor Relations Policy. One complaint included allegations of retaliation which was endorsed to the appropriate investigating unit for further action.

All corporate governance policies, including the Code of Ethics, are reviewed at least once every two years to ensure that they are appropriate for PLDT, keep pace with comparable and applicable global best practices, and are compliant with the requirements of the Philippine and US SEC, NYSE and HKSE corporate governance rules, as may be appropriate and applicable. In 2014, the Code of Business Conduct and Ethics and the Conflict of Interest Policy were reviewed and it was determined that said policies do not require any amendment or revision. The PLDT CG Manual was however amended on July 8, 2014 in conformity with PSEC Memorandum Circular No. 9, series of 2014.

PLDT's subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies similar in substance and form to PLDT's CG Rules and suited to their particular business environments and contexts, as well as appointed their respective corporate governance or compliance officers.

### *Pledge to Uphold Good Corporate Governance*

Together with the automated Conflict of Interest disclosure system, employees were also provided with a quick mechanism to reaffirm their Pledge to Uphold Good Corporate Governance (CG Pledge). The CG Pledge is an undertaking by individual employees to observe the highest standards of ethics in their daily work. The on-line CG Pledge allows easier monitoring and compilation of data on those who have or have not re-affirmed their CG Pledges. Manual signing of the CG Pledge is still required for newly-hired employees and for newly-promoted Executives. Manual signing and re-affirmation is also requested during face to face or on-line educational interventions by the CGO.

### *Protection of Technology Resources and Information*

In 2014, PLDT issued a Unified Information Technology Policy, which is applicable to PLDT, SMART and Sun, and provides for the protection of information assets, the proper use of technology resources, and policy statements on social media and data privacy.

### *Training and Education*

PLDT provides continuous training for its Board and Management. The highlight of this continuing education and communication program is the annual enhancement session which is conducted by internationally-known experts who share their experience, expertise and insights to PLDT's Board and Management. In 2014, two enhancement sessions were organized and conducted for our Board.

On April 1, 2014, our Board attended a two-hour briefing entitled *Corporate Governance Requirements Under US Laws and Regulations and Foreign Corrupt Practices Act (FCPA) of 1977*. It was handled by Mr. Garth W. Bray, a partner at Sullivan & Cromwell, LLP, U.S. legal counsel of PLDT. On December 4, 2014, the Board held another Corporate Governance Enhancement Session. There were two topics discussed in this particular session. The first speaker, no less than Atty. Teresita J. Herbosa, Chairperson of the PSEC, spoke about *Corporate Governance: What to Expect from the SEC*. Following the Chairperson's talk was a discussion on *Corporate Governance Trends and Current Topics in Developed Economies and their application in the Philippines and other ASEAN Countries*. It was handled jointly by Mr. Graham Winter and Ms. Kelly Austin. Mr. Winter and Ms. Austin are partners at the Hong Kong office of global law firm Gibson Dunn and Crutcher.

Below is a record of trainings attended by PLDT's Directors for the year 2014.

Training Details	Attendees
<b>Briefing on Corporate Governance Requirements Under U.S. Laws and Regulations and Foreign Corrupt Practices Act Of 1977</b> Mr. Garth W. Bray, Partner, Sullivan & Cromwell, LLP April 1, 2014	Manuel V. Pangilinan Napoleon L. Nazareno Ray C. Espinosa Helen Y. Dee James L. Go Juan B. Santos Hideaki Ozaki Setsuya Kimura Artemio Panganiban Pedro E. Roxas Ma. Lourdes C. Rausa-Chan Alfred V. Ty



<b>Corporate Governance: What To Expect From the SEC</b> Hon. Teresita J. Herbosa, Chairperson, Philippine Securities and Exchange Commission	Manuel V. Pangilinan Napoleon L. Nazareno Ray C. Espinosa Helen Y. Dee James L. Go
<b>Corporate Governance Trends &amp; Current Topics in Developed Economies &amp; Their Application in the Philippines &amp; Other ASEAN Countries</b> Mr. Graham Winter, Partner and Ms. Kelly Austin, Partner Gibson Dunn & Crutcher December 4, 2014	Juan B. Santos Hideaki Ozaki Artemio Panganiban Pedro E. Roxas Ma. Lourdes C. Rausa-Chan
<b>ASEAN Corporate Governance Scorecard Orientation*</b> Mr. Ricardo Nicanor N. Jacinto, President & CEO, Institute of Corporate Directors March 31, 2014	Ray C. Espinosa Artemio Panganiban Pedro E. Roxas
<b>Distinguished Corporate Governance Speaker Series*</b> Institute of Corporate Directors John Colvin April 29, 2014	Alfred V. Ty
<b>Corporate Governance Seminar*</b> SGV & Co. August 12, 2014	Tony Tan Caktiong
<b>Seminar on Corporate Governance*</b> Leonardo G. Matignas, Jr. Partner, SGV & Co. March 22, 2014	Helen Y. Dee
*Organized externally	

On December 1, 2014, PLDT's Senior and Middle Management attended a session developed and handled by Mr. Chris Lowney, Chairman of the Board of the U.S.-based Catholic Health Initiatives, author of the books *Heroic Leadership*, *Heroic Living* and *Pope Francis: Why He Leads the Way He Leads*, and former Managing Director of J.P. Morgan & Co. in New York, Tokyo, Singapore and London.



Mr. Chris Lowney speaks to the  
PLDT Group Officers.

His session was entitled: *21<sup>st</sup> Century Leadership and Governance: Thriving Amid Change, Complexity, and Lots of Choices*. All of our Officers, save for three individuals, attended this session or the session for Directors on December 4, 2014.

In addition to its periodic conduct of New Employee or Executive Orientations, the CGO completed Corporate Governance Refresher Courses for the Information Technology Group and the Network Build and Technology Groups in 2014. Aside from face to face training, PLDT has on-line training modules for its employees. PLDT executives with the rank of manager, senior manager and assistant vice president are required to access and complete an online training course on the PLDT EWB Policy. Supervisory and rank and file employees, on the other hand, are required to take and complete a module on the PLDT Conflict of Interest Policy. PLDT also conducted two Vendor and Supplier Briefings in October 2014 to promote better understanding and compliance by vendors, suppliers and contractors with PLDT's Code of Ethics and other relevant policies.

Education and training is supplemented by the production and dissemination of relevant corporate governance communication materials, including thematic posters, calendars and newsletters. Directors and certain officers and executives of PLDT are also provided with weekly Corporate Governance Newsbriefs, which contain summaries of news articles from global online sources. The Company also issues periodic advisories on corporate governance.

#### *Monitoring and Evaluation System*

PLDT's corporate governance monitoring and evaluation system consists of the annual performance self-assessment conducted by the Board and the Board Committees, the review of the effectiveness of the Company's CG Rules and their implementation every two years, the annual compliance evaluation conducted by Management, and other tools employed to monitor observance of the corporate governance rules and corporate values by Company personnel.

Our Board conducts a self-assessment each calendar year to evaluate the performance of the Board as a whole, the Board Committees and the individual directors. The process, which also includes an evaluation of the performance of the CEO and Management, enables the Board to identify strengths and areas for improvement and to elicit individual director's feedback and views on the Company's strategy, performance and future direction. Similarly, each Board Committee also conducts an annual self-assessment of its performance. The members of the Board and the Board Committees accomplish their respective Self-Assessment Questionnaires for this purpose. The Board Self-Assessment Questionnaire contains the following criteria based on leading practices and principles on good governance: (1) *for the Board*: Leadership, Roles and Responsibilities, Independence, Stewardship, Reporting and Disclosure, Shareholders' Benefits and Training; (2) *for individual directors*: the specific duties and responsibilities of a director; and (3) *for the Board Committees*: Performance and Compliance. Each Board Committee Self-Assessment Questionnaire contains the following criteria: Performance & Compliance and Committee Governance. For the 2013 performance period, the results of the assessment process was duly reported to, and discussed with, the Board in 2014.

Moreover, PLDT monitors and assesses compliance with the corporate governance rules through a cross-functional evaluation system whereby the heads of the various business and support units/groups, including, but not limited to, Enterprise and International Carrier Business, Home Business, Finance, Human Resources, Customer Service Assurance, Technology, Supply Chain Asset Protection & Management, Public Affairs, ERM, Information Technology, Regulatory, Internal Audit and Fraud Risk Management, Corporate Affairs and Legal Services, CGO and Investor Relations, conduct an evaluation of their unit/group's compliance using an evaluation questionnaire consisting of the governance standards and regulations applicable and relevant to their respective functions, including the requirements of the Revised Code of Corporate Governance of the PSEC and the Corporate Governance Guidelines of the PSE (PSE CG Guidelines). The results of the evaluation conducted by the heads are submitted to the Corporate Finance & Treasury Head and the Chief Governance Officer, who submit the consolidated report to the President and CEO for approval. The results of the compliance evaluation are reported to the GNC by the CGO.

In 2014, PLDT confirmed its full compliance with its CG Manual which contains relevant provisions of the Revised Code of Corporate Governance of the PSEC and certain corporate governance standards under the U.S Securities Exchange Act and NYSE Company Manual. In compliance with the respective Memorandum Circulars of the PSEC and the PSE, PLDT disclosed its Annual Corporate Governance Report with Consolidated Changes for Year 2014 on January 12, 2015 and filed its PSE CG Guidelines Disclosure Report for Year 2013 on March 31, 2014.

In line with all of these, PLDT has incorporated corporate governance standards in the performance evaluation of employees and has included violations of corporate governance rules as a cause for

disqualification from incentives and rewards, including under the Long Term Incentive Plan, in its Policy on Employee Qualification for Incentives and Rewards.

PLDT conducts focus group discussions across all personnel levels in order to gain insights into the effectiveness of its efforts. A Governance and Ethics Survey has been tested and will be rolled out regularly to personnel to provide more quantifiable information that is tracked over time to check for improvements or deficiencies. In similar fashion, a Corporate Governance Follow Through survey has been conducted in the past two years to track the observations of newly-hired personnel. The survey is administered to PLDT's new hires six months after they are hired and thereafter, on the second and fifth year of their service. Valuable information is also obtained from the Board and Board Committee assessment process. Data is also obtained and analyzed from results of our education activities, trends in reported violations, whether within the whistleblowing system or not, key business indicators such as customer complaints, reports from business partners and all other sources of relevant information.

## Our Stakeholders

PLDT remains committed to establishing and maintaining a corporate culture anchored on performance and responsibility in fulfilling obligations to our stakeholders. Guided by our Corporate Social Responsibility Statement (CSR Statement), we deal and engage with stakeholders in the manner described therein.

### *Investors/Shareholders*

PLDT respects, promotes and upholds shareholders rights such as: the right to vote; pre-emptive right; the right to inspect corporate books and records including minutes of Board meetings and stock registries, subject to certain conditions; right to timely receive relevant information, whether in printed or digital form; right to dividends; and appraisal right. The Company explores and implements steps to reduce excessive or unnecessary costs that impede stockholders' participation in annual and special stockholders' meetings and acts with transparency and fairness in said meetings. It makes timely disclosures of material information and transactions that could potentially affect the market price of the Company's shares. In this regard, information on earnings results, acquisition or disposal of significant assets, off balance-sheet transactions, related party transactions, Board membership changes, shareholdings of directors and officers and any changes thereto, and remuneration of directors and officers are promptly and accurately disclosed.

### **PLDT Group CSR Statement**

*At the PLDT Group of Companies, Corporate Social Responsibility is grounded in our belief that an integral part of our business is the imperative to help improve the overall well-being of the Filipino people. To achieve this goal, we will address proactively the interests of our various stakeholders. We believe that as we seek to enhance value for our shareholders, we have a responsibility to:*

- *Provide quality products and services for our customers*
- *Develop our employees*
- *Work with our suppliers and business partners in an ethical and mutually beneficial manner*
- *Care for the environment*
- *Improve our communities*

*We are conscious about the proper management of our finite and fragile environment and are taking tangible measures to lessen our carbon footprint. We will continue to invest in technical business solutions that both cut our costs and help save the environment. By succeeding as a corporation, we create wider opportunities for employment, entrepreneurship and the greater well-being of all Filipinos. We believe that as we help raise the economic welfare of the Filipino, we expand the market for our products and services. The creed of our business strategy is the desire to change lives for the better.*

Shareholders who wish to raise matters or concerns relating to the business of the Company, their investments and rights may elevate such matters to the corporate secretary, the investor relations officer, concerned units of PLDT's Management or the Board.

Moreover, PLDT's Code of Ethics prohibits directors, officers and employees from dealing in the Company's shares when in possession of material non-public information about and involving the Company. Directors, officers and employees are enjoined to report to the Company their dealings in the Company's shares, regardless of whether such dealings were effected during or outside the blackout period, within three trading days from the date of the transaction, to enable the filing of the required disclosures to the PSEC and the PSE. During blackout periods, dealing in Company shares by directors, officers or employees is not allowed and in any exceptional case, prior notice to the Company should be made of any such dealing in Company shares, in accordance with the Company's policy on Blackout Period/Restriction on Trading of Shares.

To view the Minutes of the 2014 PLDT Annual Stockholders' Meeting, please click on the link below.

<http://www.pldt.com/docs/default-source/annual-meeting-of-stockholders/2014/minutes-of-2014-annual-meeting-of-nbsp-stockholders.pdf?sfvrsn=0>

On August 5, 2014, the PLDT Board approved the amendment of our dividend policy, increasing the dividend payout rate to 75% from 70% of our core earnings per share as regular dividends. In declaring dividends, the Company takes into consideration the interest of our shareholders, as well as our working capital, capital expenditures and debt servicing requirements. The retention of earnings may be necessary to meet the funding requirements of our business expansion and development programs. However, in the event that no investment opportunities arise, the Company may consider the option of returning additional cash to shareholders in the form of special dividends of up to the balance of core earnings or to undertake share buybacks. PLDT was able to pay out approximately 90% of its core earnings for the year 2014.

Concerns of shareholders with respect to their investments and rights as shareholders are ably handled by our Investor Relations Office.

#### *Creditors*

In accordance with our Code of Ethics, we protect the rights of our creditors by publicly disclosing all material information, such as earnings results and risk exposures relating to loan covenants. Our disclosure controls and procedures also include periodic reports to our creditors such as our latest certified Financial Statements, No Default Certification, and Certification on compliance with financial ratio limits. PLDT's credit has been rated at "investment grade" by the three major international credit-rating agencies.

#### *Customers*

It is PLDT's privilege to serve a broad range of customers from residential, small & medium enterprise (SME) and large enterprises, including the public sector. PLDT strives to satisfy its customers' requirements and expectations regarding innovative products and services, quality of service, pricing, application process, service provisioning process, repair and restoration service and the billing process. We continuously engage with our customers through various touchpoints with the end in view of knowing and understanding their products and service needs, promptly addressing their concerns and identifying areas where we could further enhance customer experience.

#### *Suppliers*

PLDT aspires to maintain mutually beneficial relationships only with like-principled suppliers that uphold PLDT's core values of fairness, accountability, integrity, and transparency in their own businesses. PLDT has around 1,000 accredited suppliers which serve the requirements of the PLDT Group, ranging from

capital expenditures to operating expenditure items, as well as services. The Company's Supplier/Contractor Relations Policy provides for the general principles to be followed in vendor selection. Suppliers are required to undergo an accreditation process before they engage in business with PLDT. Among the criteria for accreditation are financial capability, technical capability, compliance with applicable laws, including those pertaining to industrial relations, environment, health and safety and intellectual property rights. The Company's purchases, as a general rule, are made on the basis of competitive bidding among accredited and qualified suppliers, in accordance with the aforementioned policy.

### *Employees*

PLDT respects the rights of its personnel, among which are the right to self-organization, safe working conditions, rest and leisure, and work-life balance. It also provides opportunities for skills development and improvement, leadership and competency training as well as career development. PLDT provides adequate opportunity for career advancement on a merit-based system. Compensation and incentives are likewise determined on the basis of performance and accomplishment. Dedicated staff and facilities are made available for the training and development programs of the Company. The Company organizes



*PLDT's employees compete at the Tug-O-War event at the MVP Olympics.*

programs that support the well-being of employees providing pursuit of personal interests, allows them to participate in PLDT's CSR activities, and obtains their feedback on Company concerns. An Organization and Employee Opinion Survey is conducted at regular intervals to gauge employee engagement as well as obtain the pulse of PLDT employees across the organization at different levels and positions concerning topics and issues which are prioritized and addressed in the various people programs of the Company. In accordance with the Company's Personnel Manual, the Company provides medical and dental benefits for our employees, which include hospitalization, doctor consultation, medicines and laboratory tests. The Company monitors and submits reports on employee health and safety in accordance with applicable regulations.

### *Communities*

PLDT operates all over the Philippines and inevitably relates to local residents, non-governmental organizations and other sectors in the communities where the Company does business. The Company is aware that these communities are concerned about PLDT's products and services and the impact of its

operations on such communities. No less than our CG Manual mandates that PLDT, through the Board, shall ensure that there exists a program for communicating with the sectors in the communities where the Company operates or those who are affected by its operations.

As a telecommunication service provider, PLDT serves communities and the people that live in them by providing products and services that offer various options for people to connect with each other. As a corporation, PLDT creates wider opportunities for employment, entrepreneurship and greater well-being. As a corporate citizen, PLDT actively engages with the communities, including the sectors directly



affected by its operations, through CSR projects in education, health, community, environment, livelihood development, youth development and sports, and disaster relief operations. In doing these activities, PLDT encourages and creates opportunities for employee participation.

#### *Environment*

PLDT is committed to do its part in addressing the pressing need to preserve and protect our environment. As such, PLDT ensures compliance with rules and regulations from local government regulatory offices such as the Department of Environment and Natural Resources' (DENR) Environmental Management Bureau, the Laguna Lake Development Authority and other similar agencies and offices. Furthermore, projects to reduce waste and the Company's carbon footprint are also being implemented. The Company regularly monitors relevant, environmentally-sensitive information such as direct energy consumption, energy saved, initiatives to reduce energy consumption, total water withdrawn by source, direct and indirect greenhouse gasses emission by weight, total weight of waste by type and disposal method, and total environmental expenditures and investment. In 2014, PLDT successfully completed and submitted its disclosure on greenhouse gas emission, energy use and climate change data to CDP. CDP works with institutional investors and public companies by providing information on how firms cope with threats and opportunities arising from climate change. The Company has also instituted programs on energy-conservation measures on Company buildings, service vehicles re-fleeting, network facilities resource optimization as well as continuing maintenance of these facilities. Finally, training is conducted to raise awareness and competency of employees and to ensure compliance with laws and regulations, promote waste minimization and sustainable practices.

#### *Advocacy and Networking*

PLDT actively supports advocacy for better governance and ethics in business. This is manifested in the Company's policy against corruption and bribery as set forth in its Code of Ethics, and further reinforced in specific policies, such as the Policy on Gifts, Entertainment and Sponsored Travel, Supplier/Contractor Relations Policy and Corporate Governance Guidelines for Suppliers, which likewise prohibit bribery involving third parties in business dealings with the Company. These policies are implemented through anti-corruption programs and measures such as internal controls, training and communication, our whistleblowing system, third party due diligence, and support for and participation in multi-sectoral anti-corruption initiatives to eliminate graft and corruption.

PLDT continues to work with institutions and organizations engaged in programs and advocacy efforts in the corporate governance, compliance and business ethics field. The PLDT Group is an active sponsoring partner member of the Ethics and Compliance Officer Association (ECO) based in Waltham, Massachusetts, USA. PLDT participates in the ECO's Annual Ethics and Compliance Conferences. Membership at the ECO gives PLDT access to its vast online library on corporate governance and related topics, opportunities to interact with other corporate governance and ethics professionals around the world, and benchmark our governance practices against those of leading companies. Locally, PLDT is a member organization of the Good Governance Advocates and Practitioners of the Philippines (GGAPP), an association of corporate governance, ethics and compliance professionals from private corporations, the public sector, the academe and other organizations interested in advancing the cause of good corporate governance. PLDT also participates in the activities of the Institute of Corporate Directors (ICD) such as its roundtable discussions and working sessions. It coordinates regularly with the ICD and PSEC in their efforts to raise the standards of corporate governance in the Philippines through the ASEAN Corporate Governance Scorecard.

Amidst the challenging, complex and ever-evolving business environment that it finds itself in, PLDT accepts the fact that sustaining profitability will remain a formidable challenge for any company. More particularly, the challenge requires PLDT and its subsidiaries and affiliates to make the leap from a telecommunication-access business to a converged digital communication business. PLDT's leadership

and personnel unequivocally affirm that confronting this challenge entails finding the nexus between principled performance and outstanding results. What this simply means is that directors and officers have the responsibility to be examples, enablers and enforcers, while the rest of the company is accountable for keeping themselves empowered, involved and informed. In doing this, our Company can confidently demonstrate that in terms of performance, prospects for growth or on matters of ethics and corporate governance, it can stand shoulder to shoulder with the best in the world.

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