

# THE PLDT GROUP CORPORATE GOVERNANCE REPORT

Corporate Governance is the cornerstone of PLDT's efforts as it undertakes a wide and deep transformation in this digital age. Its core values of accountability, integrity, fairness, and transparency remain as the pillars for maintaining, if not raising, the standards by which it conducts business and shapes its corporate culture.

PLDT's leadership, beginning with the Board of Directors (the "Board"), has ensured that the foundation for principled performance has been laid and is consistently observed as this is articulated through 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 and 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., 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.

The observance of the very high standards of corporate governance as provided by the respective laws, rules and regulations of the Philippines, the

United States of America and even the Hong Kong Special Administrative Region exhibits the Company's continuing commitment to excellence in performance as it strives to fulfill its obligations to all its stakeholders.

## **Board of Directors**

Our Board is primarily responsible for ensuring good corporate governance in PLDT. As a collective body and as individuals, the Board and the directors who comprise it are examples, enforcers and enablers of PLDT's corporate governance policies and practices.

Our CG Manual 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.



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.



### Structure and Composition

The composition of the Board and the qualifications and grounds for disqualification of directors are provided in our Articles, By-Laws and CG Manual. 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. Diversity and complementation of skills, expertise, experience and knowledge are 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 in the private or public sectors. Our directors have extensive experience in their respective fields or industries, such as telecommunications, information and communications technology, infrastructure, power, petroleum, banking, insurance, real property development, agriculture, food manufacturing, retail, 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 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, and in no case less than two members thereof, must be independent directors<sup>1</sup>. At the end of 2015, PLDT's independent directors were Mr. Pedro E. Roxas, Former Chief Justice Artemio V. Panganiban and Mr. Bernido H. Liu<sup>2</sup>. Our 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>3</sup> Our independent directors are subject to an initial term limit of five years. After completion of five consecutive or cumulative years of service,



<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> Mr. Liu replaced Mr. Alfred V. Ty on September 28, 2015.

<sup>3</sup> More specific independence criteria are enumerated in Annex A of our CG Manual.

an independent director shall no longer be eligible for re-election as such, unless said independent director has undergone a "cooling-off" period of at least 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 2015, there were only three directors who held executive positions in the Company: Mr. Napoleon L. Nazareno as President and 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. Until the end of 2015, the positions of Chairman of the Board and President and CEO were held by two unrelated individuals, Mr. Manuel V. Pangilinan and Mr. Napoleon L. Nazareno, respectively.

#### **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 (U.S. 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.

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 and local experts and keep abreast with global developments and best practices in corporate governance and business ethics.<sup>4</sup>

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.

The Board undertakes to respect, uphold and facilitate the exercise of 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>5</sup>. The Board also ensures the timely disclosure and appropriate filing with the PSEC, PSE and as applicable, U.S. 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 is an enterprise-wide process that 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 PSF 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.

Our directors take part in an annual assessment process which reviews and evaluates the performance of the whole Board, the Board Committees and the

<sup>4</sup> A more detailed discussion is found in the Training and Education section of this report.

<sup>5</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, *Engagements to Perform Agreed - Upon Procedures regarding financial information* issued by the Auditing and Assurance Standards 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.

individuals that comprise these bodies. 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.

#### **Board Meetings and Compensation**

Our Board meets, more or less, on a monthly basis in accordance with the schedule of meetings that it sets at the end of the preceding year. Invariably, some of these meetings are devoted to the review of the Company's Vision and Mission, the strategic plans and budget, and the enterprise risk reports. 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, network and technology strategic plans and CSR programs are likewise performed.

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. Save for our executive directors, our directors do not receive stock options, performance incentives, bonuses or any other form of compensation from the Company.

In 2015, our Board held 15 meetings. The Chairman of the Board, the President and CEO, and six other directors attended all Board meetings. In each meeting, a quorum of at least two-thirds of the Board members was present. All of the independent directors were present in the Annual Stockholders' Meeting held on June 9, 2015. The respective Chairmen of the Audit, Executive Compensation, and Governance and Nomination Committees were present as well in the said meeting. The total amount of *per diem* provided to the directors for their attendance in Board meetings in 2015 was Php41.75 million<sup>6</sup>.

The Board, excluding the executive directors, convened an executive session preceding the regular meeting on December 1, 2015.

## BOARD OF DIRECTORS

Name of Director	Jan 20	Jan 27	Mar 3	Mar 26	May 4	May 5	Jun 9**	Jun 9**	Jun 9**	Jul 7	Aug 4	Aug 25	Sep 28	Nov 3	Dec 1	Total	Percentage
Manuel V. Pangilinan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Napoleon L. Nazareno	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Helen Y. Dee	√	√	√	√	√	√	x	x	x	√	√	√	x	√	√	11/15	73%
Ray C. Espinosa	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
James L. Go	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Setsuya Kimura	√	√	x	√	√	√	√	√	√	—	—	—	—	—	—	8/9	89%
Hideaki Ozaki	x	x	√	√	√	√	√	√	√	√	√	√	x	√	√	12/15	80%
Artemio V. Panganiban*	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Ma. Lourdes C. Rausa-Chan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Pedro E. Roxas*	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Juan B. Santos	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Tony Tan Caktiong	√	x	√	√	√	√	x	x	x	√	x	x	√	x	√	8/15	53%
Alfred V. Ty*	√	√	√	√	√	√	√	√	√	x	√	x	—	—	—	10/12	83%
Tadashi Miyashita <sup>7</sup>	—	—	—	—	—	—	—	—	—	√	√	√	√	√	√	6/6	100%
Bernido H. Liu <sup>8*</sup>	—	—	—	—	—	—	—	—	—	—	—	—	√	√	√	3/3	100%

\* Independent director

\*\* Three meetings were conducted on June 9, 2015, a regular Board meeting, the annual stockholders' meeting and the organizational meeting of the Board.

<sup>6</sup> Only one *per diem* was given to directors for the three meetings held on June 9, 2015. A *per diem* was also provided to each of the directors who attended the special executive session which took place prior to the regular board meeting on December 1, 2015.

<sup>7</sup> Mr. Tadashi Miyashita was elected to the Board on July 7, 2015 to replace Mr. Setsuya Kimura who resigned on even date.

<sup>8</sup> Mr. Bernido H. Liu was elected to the Board on September 28, 2015 to replace Mr. Alfred V. Ty who resigned on even date.



In these meetings, the Board reviewed and deliberated on, among other matters, the interim financial reports and audited financial statements; establishment and maintenance of effective and adequate financial reporting and internal control systems; business objectives and budget for the year; implementation of business strategies, plans and policies through the various business segments: Home and Wireless Consumer, Enterprise, International and Carrier and others; risk management framework/system, major risk exposures and actions taken to monitor, minimize, control or manage such risks; CSR programs; reports from the Board Committees on the performance of the authorities delegated to them under their respective charters; and results of the performance assessment of the Board, Board Committees and individual directors.

The Board, working with Management, devoted substantial attention in reviewing the PLDT Group's vision and discussing the PLDT Group's strategy to move firmly into the digital space and reshape itself into a converged digital communications business. In support of the digital pivot and strategic direction to dramatically improve customer experience as well as maintain the PLDT Group's leadership in the mainstream and digital fronts, the Board approved certain transformational organizational changes in the senior leadership team and in the network and IT organization, as well as the medium and long-term technology strategy and implementation roadmap. It also approved strategic investments in Talas, our Big Data business subsidiary, and PLDT Capital, our investment arm to grow our portfolio of digital services and serve as our link to leading companies in Silicon Valley and around the world.

## 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 2015 was Php20.25 million<sup>9</sup>.

PLDT's other Board Committees, namely Audit, Governance and Nomination, Executive Compensation, Technology Strategy and the newly established Risk Committee function in accordance with their respective charters. These charters, in particular and among others, provide these Board Committees 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. 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.

## ADVISORY COMMITTEE

Members	Jan 20	Jan 27	Mar 3	Mar 26	May 4	May 5	Jun 9*	Jun 9*	Jun 9*	Jul 7	Aug 4	Aug 25	Sep 28	Nov 3	Dec 1	Totals	Percentage
Oscar S. Reyes	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Roberto R. Romulo	√	√	√	√	√	√	x	√	√	√	√	√	√	√	√	14/15	93%
Benny S. Santoso	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Washington Z. SyCip	√	√	√	x	√	x	x	x	x	√	√	√	√	√	√	10/15	67%
Orlando B. Vea	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%
Christopher H. Young	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15/15	100%

\* Three meetings were conducted on June 9, 2015, a regular Board meeting, the annual stockholders' meeting and the organizational meeting of the Board.

<sup>9</sup> Five advisors attended the special executive session on December 1, 2015 and *per diem* of Php250 thousand was paid to each of these advisors.



These (Board) committees provide valuable assistance in the performance of the Board's responsibilities and aid in ensuring compliance with the principles of good corporate governance.



#### **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; 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; 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/docs/default-source/company-leadership/audit-committee-charter.pdf?sfvrsn=2>

The AC's activities in 2015 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' 2014 financial statements prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and International Financial Reporting Standards (IFRS), and internal controls over financial reporting (ICFR) based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 (COSO IC-IF 2013).

- SGV & Co.'s required communications (to the AC), including their independence from PLDT;
- The various audit, audit-related and non-audit services and fees of SGV & Co. and E&Y that were approved by the AC in 2015;
- The non-audit engagements for PLDT and its subsidiaries in 2015;
- SGV & Co.'s integrated plan for the audit of PLDT's and its subsidiaries' 2015 financial statements and ICFR;
- SGV & Co.'s status report on the integrated audit of 2015 financial statements and ICFR; and
- SGV & Co.'s updates on various new accounting standards and the results of E&Y's global survey regarding ten leading industry challenges for telecommunications companies.

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 2014 and the 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 the PLDT Internal Audit organization;
- The retention of the existing PLDT Internal Audit Charter until the next review in 2016;
- PLDT's Internal Audit Plan for 2015 (original and updated);
- Internal Audit's report on the PLDT Group's Sarbanes-Oxley – Section 404 (SOX 404) Compliance – Management's Overall Assessment and Conclusions as of December 31, 2014;
- The PLDT Group's SOX 404 compliance approach for 2015, and the anticipated major challenges on SOX 404 readiness and compliance; and
- The major IAFRMG activities and accomplishments, including the internal audit organizational updates.

The AC also conducted an evaluation of the qualifications and performance of the incumbent Head of the Internal Audit organization, and resolved to re-appoint Mr. Jun R. Florencio as the Chief Audit Officer/Internal Audit Head.

Relative to financial reporting and controls, the AC reviewed and discussed the following with PLDT Finance Officers and/or SGV & Co.:

- PLDT's audited financial statements for 2014 prepared in accordance with PFRS and IFRS, the report of SGV & Co. on the final results of its integrated audit of 2014 PFRS and IFRS financial statements and ICFR, the PLDT Group's 2014 Annual Report on Form 17-A (for PSEC filing) and Annual Report on Form 20-F (for U.S. SEC filing);
- PLDT's unaudited consolidated financial results and reports for the three months ended March 31, 2015, the six months ended June 30, 2015, and the nine months ended September 30, 2015; and
- PLDT's responses to U.S. SEC letters requesting clarification regarding PLDT's accounting for investments in MediaQuest Holdings, Inc. (MediaQuest) through Philippine Depositary Receipts (PDRs).

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

- Conducted a self-evaluation of its performance for the year 2014;
- Reviewed and approved the 2014 Audit Committee Report for inclusion in the Annual Report and the retention of the amended PLDT Audit Committee Charter until the next review in 2016;
- Discussed with the Corporate Secretary, Chief Legal Counsel and Chief Governance Officer the Notice and Agenda, the Information Statement/Proxy Form, for the annual stockholders' meeting, the status of Company's compliance with regulations and applicable laws, updates on significant legal matters, and the status of whistleblowing complaints received by Corporate Governance Office (CGO);
- Discussed with the Senior Manager of Smart's Group Enterprise Risk Management Department (GRMD) the Group ERM Officer's report on the PLDT Group's top key enterprise risks for 2015 and the corresponding risk responses, as identified by Management;
- Discussed with the PLDT Group's Chief Financial Officer PLDT's American Depositary Receipt (ADR) Program;

- Discussed with the Head of PLDT's IAFRMG his presentation regarding the COSO IC-IF 2013's Principle 8 (pertaining to fraud risk assessment) under the Risk Assessment component of internal control;
- Discussed with the various PLDT and Smart business and operational unit heads concerned regarding tax rulings, regulatory matters and the initiatives, updates and programs on quality of service and wireless customer experience, IT security strategies for 2016, status of implementation of the Technology Governance framework and results of the research regarding the organizational alignment of the Fraud Risk Management function in different major telecommunication companies; and
- Discussed network capital expenditures matters with executive officers and other executives.

The AC had eight regular meetings and three special meetings for the year 2015. Members and advisors of the AC are each entitled to a *per diem* of Php125 thousand for every meeting attended and a total of Php9.125 million was paid as *per diem* to those who attended the meetings in 2015.

## AUDIT COMMITTEE

Members	Jan 27	Jan 30**	Feb 24**	Feb 27	Mar 17	May 4	May 21**	Aug 3	Sep 28	Nov 2	Nov 27	Total
Pedro E. Roxas*	√	√	√	√	√	√	√	√	√	√	√	11/11
Artemio V. Panganiban*	√	√	√	√	√	√	√	√	√	√	√	11/11
Alfred V. Ty* <sup>10</sup>	√	√	x	√	√	√	x	√	—	—	—	6/8
Bernido H. Liu*	—	—	—	—	—	—	—	—	—	√	√	2/2
Non-Voting Members												
Corazon S. Dela Paz-Bernardo	√	√	√	√	√	√	√	√	√	√	√	11/11
Roberto R. Romulo	√	√	√	√	√	√	√	√	√	√	√	11/11
James L. Go	√	√	√	√	√	√	√	√	√	√	√	11/11
Setsuya Kimura <sup>11</sup>	√	√	√	x	√	√	√	—	—	—	—	6/7
Tadashi Miyashita	—	—	—	—	—	—	—	√	√	√	√	4/4

\* Independent Director

\*\* Special meetings of the AC

<sup>10</sup> Mr. Ty resigned as an independent director on September 28, 2015 and was replaced by Mr. Bernido H. Liu as an independent director and member of the AC.

<sup>11</sup> Mr. Kimura resigned as a director on July 7, 2015 and was replaced by Mr. Tadashi Miyashita as a director and member of the AC.

### **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 2015 included the following.

- With regard to policy review and development, the GNC reviewed and assessed the Policy on Gifts, Entertainment and Sponsored Travel, the Expanded Whistleblowing Policy, the Supplier/Contractor Relations Policy, the CG Manual and the GNC Charter. The GNC determined that

the said policies and charter remain sound and continue to be appropriate for the Company. The GNC also noted governance enhancements made in the period of 2014-2015 and approved recommendations to further strengthen the implementation of the said policies through appropriate training, monitoring and enforcement measures. This includes the adoption of PLDT's Policy on Gift-Giving Activities which aims to ensure that the gift-giving activities of PLDT are compliant with applicable laws and consistent with the Company's core values and policies.

- With respect to education and communication, the GNC reviewed and approved content for the corporate governance training and continuing education program, particularly the Directors' and Officers' Corporate Governance Enhancement Sessions for 2015. The GNC also selected and approved the themes for PLDT's 2016 CG communication materials and noted the results of the PLDT Governance and Ethics Survey and other CG monitoring tools. Finally, the GNC reviewed and approved the PLDT Corporate Governance Report.
- With respect to compliance and enforcement, the GNC reviewed and noted or approved, as applicable, the updates on the development of the Online Periodic Conflict of Interest (COI) Disclosure System and COI Disclosures of key personnel, the development and implementation of the Periodic Disclosure of Gifts, Entertainment and Sponsored Travel pursuant to the Policy on Gifts and the development of an Online Policy on Gifts Disclosure System. It reviewed the Expanded Whistleblowing (EWB) cases and the handling thereof, including those of the PLDT subsidiaries and received updates on the Company's compliance with circulars issued by the PSEC and PSE relating to corporate governance and performance under the ASEAN Corporate Governance Scorecard.
- Assisted the Board in implementing the Board Assessment for 2014 performance, which included the performance evaluation of the Board Committees and Individual Directors including the Chief Executive Officer.



In the performance of its nomination functions, the GNC's activities in 2015 included the following:

- Pre-screened candidates nominated to become directors, pre-screened the qualifications of candidates for independent directors, and submitted to the Board the final list of qualified director and independent director nominees for election at the Annual Stockholders' Meeting held on June 9, 2015.
- Screened and recommended to the Board the appointment of an independent director and a director to fill the vacancies in the Board and Board Committees.
- Reviewed and confirmed the Human Resources Group'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 9, 2015.
- Reviewed and confirmed the Human Resources Group'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 2014 Board and Board Committees Assessment;

(b) GNC Annual Report of Activities for 2014; and (c) GNC Self-Assessment for 2014 Performance.

The GNC held three meetings in 2015. Members of the GNC are entitled to a *per diem* of Php125 thousand for every meeting attended and a total of Php2.375 million was paid as *per diem* to those who attended the meetings in 2015.<sup>12</sup>

#### **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

### GOVERNANCE AND NOMINATION COMMITTEE

Members	Mar 17	Jul 2	Sep 23	Total
Manuel V. Pangilinan	√	x	√	2/3
Artemio V. Panganiban*	√	√	√	3/3
Pedro E. Roxas*	√	√	√	3/3
Alfred V. Ty*	√	√	√	3/3
Bernido H. Liu* <sup>13</sup>	—	—	—	—
Setsuya Kimura <sup>14</sup>	√	x	—	1/2
Tadashi Miyashita	—	—	√	1/1
Non-Voting Members				
Menardo G. Jimenez	√	√	√	3/3
Ma. Lourdes C. Rausa-Chan	√	√	√	3/3

\* Independent Director

### EXECUTIVE COMPENSATION COMMITTEE

Members	Feb 24	Sep 10	Total
Manuel V. Pangilinan	√	√	2/2
Artemio V. Panganiban*	√	√	2/2
Pedro E. Roxas*	√	√	2/2
Alfred V. Ty*	√	x	1/2
Bernido H. Liu* <sup>15</sup>	—	—	—
Setsuya Kimura	√	—	1/1
Tadashi Miyashita <sup>16</sup>	—	√	1/1
Non-Voting Member			
Menardo G. Jimenez	√	√	2/2

\* Independent Director

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 2015, the ECC approved the payout of the 2012-2014 PLDT Group Long-Term Incentive Plan and the payout of one month Chairman's Bonus as consideration for 2014 performance. It also discussed and approved a new structure for the Variable Pay for Officers and Executives and its corresponding performance targets for 2015. Finally, it discussed the initial proposed targets for the 2015-2017 PLDT Group Long-Term Incentive Plan and the proposed 2015 Merit Increase of PLDT and Smart.

The ECC held two meetings in 2015. Members of the ECC are entitled to a *per diem* of Php125 thousand for every meeting attended and a total of Php1.375 million was paid as *per diem* to those who attended the meetings in 2015.

<sup>12</sup> Mr. Tadashi Miyashita participated as an observer in the GNC's meeting on July 2, 2015 and was given a *per diem* of Php125 thousand.

<sup>13</sup> Mr. Ty resigned on September 28, 2015 and was replaced by Mr. Liu, who was elected by the Board on even date.

<sup>14</sup> Mr. Kimura resigned on July 7, 2015 and was replaced by Mr. Miyashita, who was elected by the Board on even date.

<sup>15</sup> Mr. Liu replaced Mr. Ty as a member of the ECC on September 28, 2015.

<sup>16</sup> Mr. Miyashita replaced Mr. Kimura as a member of the ECC on July 7, 2015.

### 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 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 2015, the TSC discussed the Network Audit Report, the CAPEX (Past and Present Update), the state of the Fixed Network and the Technology & IT Budget for 2016. Also discussed were projects which aim to achieve operational efficiencies and improve service quality and customer experience.

The TSC had four meetings in 2015. Members of the TSC are entitled to a *per diem* of Php125 thousand for every meeting attended and a total of Php3.375 million was given as *per diem* to those who attended the meetings in 2015.

### Risk Committee (RC)<sup>18</sup>

The RC's primary purpose is to assist the Board in fulfilling its governance functions relating to risk management. These functions include overseeing Management's adoption and implementation of a system for identifying, assessing, monitoring and managing key risk areas, and reviewing Management's reports on the Company's major risk exposures and Management's plans and actions to minimize, control or manage the impact of such risks.

The RC has five voting members, three of whom are independent directors. The Charter of the RC may be accessed through this link:

<http://www.pldt.com/docs/default-source/corporate-governance-files/committee-charter/risk-committee-charter.pdf?sfvrsn=0>

In 2015, the major accomplishments of the RC are the following:

- Recommended the approval of the RC Charter to the Board of Directors;
- Discussed, updated and approved the PLDT Group Risk Appetite Statement;
- Revised the Group Risk Management Policy Manual;
- Discussed the Cyber Security trends and various approaches taken by most companies and Enterprise Risk Management (ERM) global best practices and their impact on telecommunication companies; and
- Approved the budget for necessary software and the new ERM bottom-up approach.

The RC held two meetings in 2015. Members of the RC are entitled to a *per diem* of Php125 thousand for every meeting attended and a total of Php1.125 million was given as *per diem* to those who attended the meetings in 2015.

## TECHNOLOGY STRATEGY COMMITTEE

Members	Jun 1	Jul 16	Sep 24	Nov 25	Total
Manuel V. Pangilinan	√	√	√	√	4/4
Napoleon L. Nazareno	√	√	√	√	4/4
Ray C. Espinosa	√	√	√	√	4/4
Setsuya Kimura	√	—	—	—	1/1
Tadashi Miyashita <sup>17</sup>	—	√	√	x	2/3
James L. Go	√	√	√	√	4/4
Oscar S. Reyes	√	√	√	√	4/4
Orlando B. Veja	√	√	√	√	4/4

## RISK COMMITTEE

Members	Sep 15	Nov 27	Total
Pedro E. Roxas*	√	√	2/2
Artemio V. Panganiban*	√	√	2/2
Bernido H. Liu*	—	√	1/1
James L. Go	√	√	2/2
Tadashi Miyashita	√	√	2/2

\* Independent Director

<sup>17</sup> Mr. Miyashita replaced Mr. Kimura as a member of the TSC on July 7, 2015.

<sup>18</sup> Established on June 9, 2015.



## 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 CEO

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 expected to work fairly and objectively with the Board, Management and stockholders. He/she 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, must ensure that all Board procedures, rules and regulations are strictly followed by the directors, and is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board. 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 to, 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.

### **Group Enterprise Risk Management Department**

Working in coordination with our RC, internal audit organization and AC, is the PLDT Group Enterprise Risk Management Department (GRMD). The complex and dynamic business environment that the PLDT Group operates in gives rise to a variety of risks. The GRMD is in charge of managing an integrated risk management program with the goal of identifying, analyzing and managing the PLDT Group's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus sustain competitive advantage. The Enterprise Risk Management (ERM) process used by the GRMD 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 occurrence 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 (CGO)**

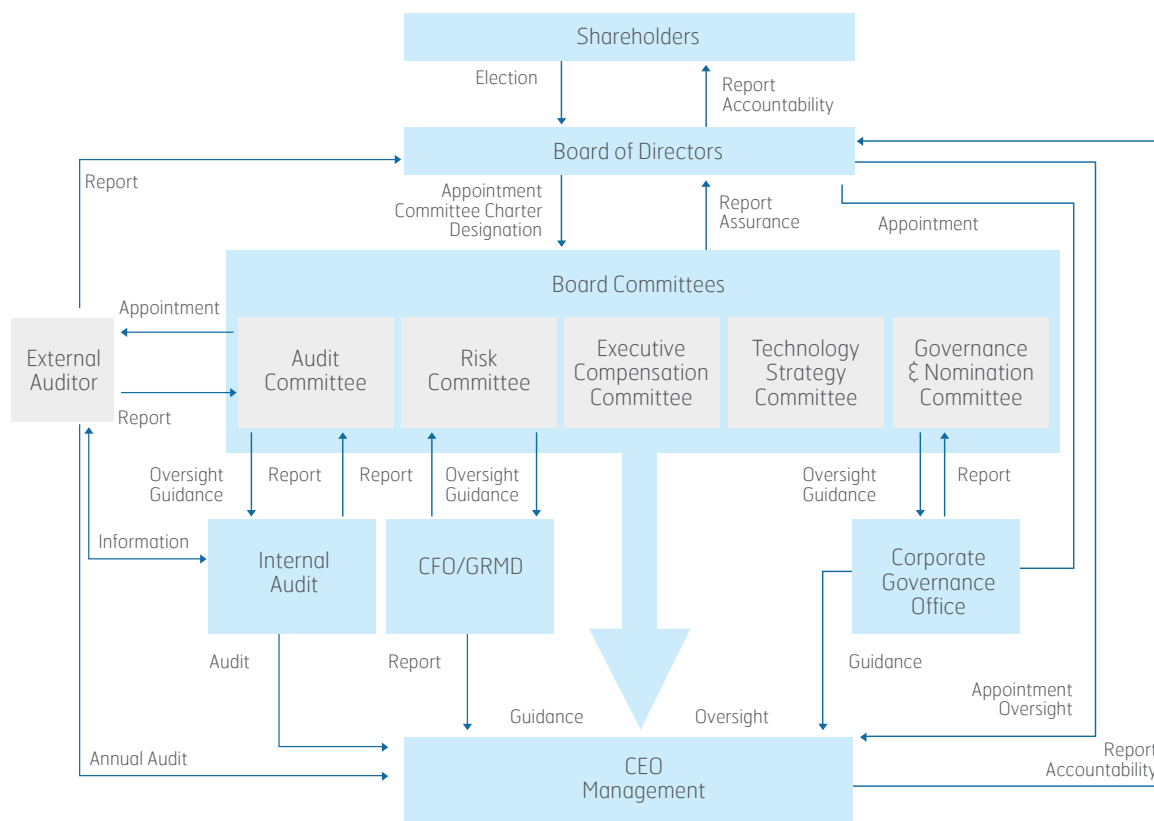
PLDT's corporate governance initiatives comprise three stages: compliance, competence and eventually, culture. It is the responsibility of the CGO, through the supervision and direction provided by the Chief Governance Officer, to ensure progress through these three stages by attending to the three task 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 go to 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 go to 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 2015, PLDT personnel continued the use of the automated system for Conflict of Interest Disclosures which was launched in 2014. The system allows all officers, executives and employees to make online disclosures regarding potential or actual conflicts of interest or expressly affirm that they have no updates to their conflict of interest disclosures. The system facilitates 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. 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 of Directors 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, *Related Party Disclosures*, and other applicable disclosure requirements.

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

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 beginning in

2014 by requiring all personnel to submit to their Group Heads, periodic disclosures of offers and/or acceptance of such.

Corollary to this, the *Policy on Gift-Giving Activities* was adopted to provide guidance and procedural safeguards with respect to gift-giving activities to government officers/officials and business partners, for or on behalf of, PLDT. The Policy seeks to ensure that such activities are compliant with applicable laws and consistent with the Company's core values and policies. Moreover, since the Company expects its business partners and other third parties to respect our own Gifts Policy, then the Company's gift-giving must likewise be sensitive to, and respectful of, the gifts policy of intended recipients.

#### ***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. PLDT has also issued and implements its *Policy on Vendor Sanctions*, which established a cross-functional vendor compliance committee that handles 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, Gifts Policy, 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 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 2015, there was one new whistleblowing complaint received by the CGO. This was referred to the appropriate investigating unit for further investigation. In addition, as at December 31, 2015, cases, which were received in 2014, were pending, while five 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, Gifts Policy and Supplier/Contractor Relations Policy. One complaint included allegations of retaliation, which was deemed closed in 2015.

All CG 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 U.S. SEC, PSE, NYSE and HKSE corporate governance rules, as may be appropriate and applicable.

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 are 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 online 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 online educational interventions by the CGO.

#### ***Protection of Technology Resources and Information***

PLDT has 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***

As previously mentioned, PLDT provides continuous training for its Board and Management, even before such training was formally required by the PSEC. All of the current directors have undergone corporate governance orientation and have attended several, if not all, of the nine corporate governance enhancement sessions organized since 2007.

The corporate governance enhancement session, consisting of two modules, was organized for our Board and Management to enable them to meet their training requirements for the year 2015. The enhancement session was designed to provide information relevant to the digital transformation of PLDT and the PLDT Group, particularly on the subjects of Data Privacy and Data Security. Module 1 was designed to tackle the issue of Data Privacy Governance and was formally entitled *Data and Information Rules: What the Board and Management Should Know*. Module 2 was entitled *Cyber Security in the 21st Century: The Threat Landscape*.

Module 1 was handled by Atty. Jose Jesus M. Disini, Jr., a leading authority on rules and regulations pertaining to data and information in the Philippines. The two-hour module was conducted in three runs. The first was on October 29, 2015 for our Management and the second run was conducted on October 30, 2015 for our Board. A special third run was conducted on December 9, 2015 for PLDT directors and officers who were unable to attend the previous runs. Module 2 was handled by Mr. Christopher Camejo, Director of Security Risk Assessment Services, NTT Com Security. It was held on February 18, 2016. These two modules were approved by the PSEC as In-House Corporate Governance Training Programs pursuant to PSEC Memorandum Circular No. 13, Series of 2013 and PSEC Memorandum Circular No. 2, Series of 2015.

Apart from their attendance and participation in PLDT-organized CG Training, PLDT Directors also attended external CG Training. Below is a table of all CG and CG-related training sessions attended by our Board in 2015 and on February 18, 2016. One of our Directors, Mr. James Go, has been granted permanent exemption from the CG Training Requirements by the PSEC.



## CORPORATE GOVERNANCE TRAINING

Program	Training Institution	Date of Training	Name of Director
Cyber Security in the 21st Century: The Threat Landscape	Speaker: Mr. Christopher Camejo	February 18, 2016	Napoleon L. Nazareno Ray C. Espinosa Tadashi Miyashita Ma. Lourdes C. Rausa-Chan
Data and Information Rules: What the Board and Management Should Know	Speaker: Atty. Jose Jesus M. Disini, Jr.	December 9, 2015	Pedro E. Roxas
Seminar on Corporate Governance	Speaker: SyCip Gorres Velayo & Co.	December 8, 2015	Hideaki Ozaki
ASEAN Corporate Governance Conference on Governance Transformation in ASEAN: Reforms and Priorities (Panelist, ASEAN Chairmen/ CEOs Panel Discussion & Open Forum: The Business Case for Corporate Governance: Branding or Burden?)	Hosted by: Philippine SEC and ASEAN Capital Markets Forum	November 14, 2015	Manuel V. Pangilinan
Data and Information Rules: What the Board and Management Should Know	Speaker: Atty. Jose Jesus M. Disini, Jr.	October 30, 2015	Manuel V. Pangilinan Napoleon L. Nazareno Ray C. Espinosa Tadashi Miyashita Artemio V. Panganiban Ma. Lourdes C. Rausa-Chan
Data and Information Rules: What the Board and Management Should Know	Speaker: Atty. Jose Jesus M. Disini, Jr.	October 29, 2015	Ma. Lourdes C. Rausa-Chan
Legal and Regulatory Update	Speaker: First Pacific Co. Ltd. (Hong Kong) through Gibson Dunn and Crutcher	October 16, 2015	Manuel V. Pangilinan Napoleon L. Nazareno Ray C. Espinosa
Seminar on Corporate Governance	Speaker: SyCip Gorres Velayo & Co.	September 5, 2015	Helen Y. Dee
Corporate Governance Orientation Program	Speaker: Institute of Corporate Directors	August 27, 2015	Tadashi Miyashita
Seminar on Corporate Governance	Speaker: SyCip Gorres Velayo & Co.	August 24, 2015	Juan B. Santos
The Family Business Governance Program	Speaker: Institute of Corporate Directors	August 3, 2015	Bernido H. Liu
Orientation Course for Corporate Governance	Speaker: Institute of Corporate Directors	February 18, 2015	Artemio V. Panganiban

In addition to its periodic training and orientation for new employees and executives, the CGO continued to conduct Corporate Governance Refresher Courses for Field Personnel based in the Cavite, Laguna and Batangas Customer Service Operations Zones. Other zones and offices will be covered in succeeding years with the intention of letting all employees undergo the CG Refresher Course. A CG Refresher Course was also integrated into the Seminar on Administrative Policies and Procedures (SAPP) together with the Human Resources Group. SAPP classes were conducted on April 13, 2015 and September 1, 2015 at the PLDT Innolab.

Education and training is supplemented by the production and dissemination of relevant corporate governance communication materials, including thematic posters, calendars and newsletters. Directors, 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 CG Rules and corporate values by Company personnel.

As previously discussed, 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 2014 performance period, the results of the assessment process was duly reported to, and discussed with, the Board in 2015.

Moreover, PLDT monitors and assesses compliance with the CG Rules through a cross-functional evaluation system whereby the heads of the various business and support units/groups conduct an evaluation of their unit/group's compliance. The process uses 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 2015, 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 2014 on March 31, 2015.

In line with all of these, PLDT has incorporated corporate governance standards in the performance evaluation of employees and has included violations of CG 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. PLDT employs a Governance and Ethics Survey which is conducted annually to a random sample of employees. Valuable information is also obtained and analyzed from the Board and Board Committee assessment process, from results of and feedback from 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. In doing so, we are guided by our CG Policies as well as by our Corporate Social Responsibility Statement (CSR Statement) and our General Practice on Stakeholder Engagement (GPSE).

The CSR Statement is a succinct articulation of our belief that an integral part of our business is the imperative to help improve the overall well-being of the Filipino people. The CSR Statement also enumerates the broad responsibilities that PLDT assumes as it operates and conducts its business. The full text of the CSR Statement may be accessed through this link:

<http://www.pldt.com/corporate-governance-in-pldt/our-stakeholders>.

On the other hand, our GPSE mandates that the Company shall promote a culture of good corporate governance by observing and maintaining its core business principles of accountability, integrity, fairness and transparency in its relationships with its customers, shareholders, employees, suppliers, competitors, business partners (which include creditors, dealers and distributors), governments, regulators and the public. More specifically, it provides a listing of which concerns and issues are closest to the minds and hearts of our specific stakeholder groups in order that these are duly noted and more importantly, addressed. The GPSE may be accessed through this link:

<http://www.pldt.com/docs/default-source/compliance/corporate-governance-materials/general-practice-on-stakeholder-engagement.pdf?sfvrsn=6>.

## 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.

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.

On August 5, 2014, the PLDT Board of Directors 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% and 75% of its core earnings for the years 2014 and 2015, respectively.

To view the Minutes of the 2015 PLDT Annual Stockholders' Meeting, please click on the link below.

<http://pldt.com/docs/default-source/annual-meeting-of-stockholders/2015/minutes-of-2015-annual-meeting-of-nbsp-stockholders.pdf?sfvrsn=2>

#### **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 and 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 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 telecommunications 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 environmental protection and compliance with environmental laws. To intensify the environmental compliance of the Company, a Risk Management and Compliance Division was established to oversee compliance of all PLDT establishments/buildings with the regulations and environmental laws. We have also implemented stack and ambient emission monitoring of standby generator sets, construction of temporary storage facilities and safekeeping of hazardous waste, and construction of Waste Water Treatment Plant Facility in order to comply with applicable environmental laws such as the Philippine Clean Air Act (RA 8749), Toxic Substances and Nuclear Waste Control Act (RA 6969), Ecological Solid Waste Management Act (RA 9003), Philippine Clean Water Act (RA 9275) and Pollution Control Law (PD 984).

Beyond compliance with laws and regulations, PLDT has implemented programs that aim to reduce greenhouse gas emission and also cause energy cost savings. These consist of our network's migration from old Legacy Switches to the New Generation Network, upgrading the lighting equipment in our buildings into more efficient technologies, replacement of old air-conditioners with energy saving-type units, and even simple steps such as space optimization in workplaces. Apart from mitigating the Company's environmental footprint, numerous measures to address the threats arising from climate change impact have been put in place. Facilities and our network are focused on climate-proofing efforts to assure business continuity during times of natural calamities. Structural retrofitting of Company buildings and offices, relocation to safer location of diesel generators and strategic deployment of mobile units, and placing more underground Fiber Optic cables comprise some of such resiliency programs.

#### **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 Gifts Policy, Supplier/Contractor Relations Policy, Corporate Governance Guidelines for Suppliers and Policy on Gift-Giving Activities, which prohibit bribery or acts which may be construed as 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 Initiative (ECI)<sup>19</sup>. Our continuing membership at the ECI 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 and other companies in the PLDT Group are members 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) and its sister-institute in the public sector the Institute for Solidarity in Asia (ISA). PLDT was a major sponsor of the ISA's Islands of Good Governance Program in 2015. Finally, we coordinate 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.

In 2015, PLDT's corporate governance initiatives and efforts were, among others, recognized locally and internationally.

First, PLDT was listed as one of the Top 50 companies in the ASEAN region in the very first publicly-announced results of the ASEAN Corporate Governance Scorecard. PLDT was also one of only five companies in the Philippines given the Bell Award for Corporate Governance by the PSE. These awards serve to inspire every person in PLDT to remain committed to the highest standards and principles of corporate governance, fitting reminders to the Company's adherence to values and principles.

PLDT is committed to pursue profitability through principled performance, even as it confronts a transformation process that is conceivably formidable and arduous. In a business environment that is beset with challenges and is constantly evolving, our values and principles give the Company's many stakeholders comfort in the knowledge that it will not forsake lasting, long-term outcomes for quick but ephemeral gain as the Company learns, innovates, and looks forward to reaping the benefits of eventual regrowth. The Company shall continue to ensure compliance, improve its corporate governance structures and processes, and maintain or raise the governance standards by which it conducts business, engages with its shareholders and other stakeholders and shapes its corporate culture under the leadership of its Board of Directors and guided by the Company's core values of accountability, integrity, fairness and transparency.

<sup>19</sup> Formerly known as the Ethics and Compliance Officer Association (ECOA).