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I. POLICY STATEMENT

It is the policy of Meralco (the “Company”) that all related party transactions (RPTs) are done in “fair and at arm’s-length” terms and must inure to the benefit and best interest of the Company and its shareholders. In this regard, all RPTs shall be conducted in accordance with the principles of honesty, transparency and fairness, and shall be properly approved and disclosed in accordance with this Policy and Guidelines.

II. DEFINITION OF TERMS

For the purpose of this Policy and Guidelines, the following definition of terms shall apply:

1. **Related Party**¹ – a person or entity that is related to the reporting entity. A person or a close member of that person’s family is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel. (In this Policy, the entity that is preparing its financial statements is referred to as the ‘reporting entity’ or ‘the Company’).

The Company’s Related Party includes its subsidiaries (including their associates, joint ventures and subsidiaries); shareholders who have direct or indirect control or exercise significant influence over the Company, including their subsidiaries, associates or joint ventures; the Company’s directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the Company. Refer to **Annex A** on page 8 for instances of a related party.

2. **Related Party Transaction (RPT)**¹ – a transfer of resources, services or goods between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
3. **Close members of the family of a person**¹ – family members who may be expected to influence, or be influenced by, that person in his dealings with the entity.

¹ As defined in International Accounting Standards (IAS) 24.

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4. **Associate** - an entity over which an investor has significant influence.
5. **Control**² of an investee – an investor controls an investee when the investor is `exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
6. **Joint control**² -- the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
7. **Significant influence**³ – the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
8. **Parent** – an entity that controls one or more entities.
9. **Subsidiary** -- an entity that is controlled by another entity.
10. **Joint Venture**³ – a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
11. The term “**fair and at arm’s-length**” refers to transactions in an open and unrestricted market and between willing parties who are knowledgeable, informed, and who act independently of and without regard to any relationship with each other.
12. **Key Management Personnel**¹ – persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

III. GENERAL PRINCIPLES

1. The Company shall at all times observe and adhere to the provisions of the Corporation Code of the Philippines, its Articles of Incorporation and By-laws, and all other relevant and laws, rules and regulations, as may be applicable, in the review, approval and disclosure of RPTs, always taking into consideration the rights of the Company’s shareholders, minority and majority alike.

² As defined in International Financial Reporting Standards (IFRS) 10.

³ As defined in International Financial Reporting Standards (IFRS) 11.

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2. All RPTs shall be reviewed and approved by an appropriate RPT Approving Authority to ensure that they are on terms and conditions that are at arm's-length. This RPT review and approval shall encompass potential and existing RPTs entered or to be entered by any group or business responsibility unit of the Company, taking into account its size, structure, risk profile and complexity of operations.
3. All material RPTs shall be subject to review and endorsement by all the independent directors who are members of the RPT Committee.
4. Directors and key management personnel shall disclose their interest in transactions and any other conflicts of interest, including details of all their other directorships and any shareholdings owned by them. Directors are required to notify the Company's Board before accepting a directorship in another publicly-listed company. Changes in their interest must be promptly disclosed to the Board of Directors through the Company's Corporate Secretary.
5. Directors and key management personnel shall abstain and/or inhibit themselves from participating in discussions on a particular agenda when they are conflicted.
6. The Company shall ensure that RPTs carried out by its subsidiaries are conducted in accordance with this Policy.
7. Subject to the recommendation of the RPT Review Team, any unusual or infrequently occurring transaction constituting RPT may likewise be made subject to review and approval in accordance with this Policy and Guidelines.

IV. REVIEW AND APPROVAL OF RPTs

1. Each RPT Approving Authority shall ensure that RPTs are for the best interest of the Company. In evaluating RPTs, all the relevant facts and circumstances available shall be considered, including but not limited to the following:
 - a. The related party's relationship to the Company and interest in the transaction;
 - b. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
 - c. The purpose and timing of the proposed RPT;
 - d. The benefits to the Company of the proposed RPT;

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- e. The availability of other sources of comparable products or services; and
 - f. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.
2. The RPT shall be considered material/significant if determined by the RPT Review Team to be potentially or actually significant to the Company. The aggregate amount of RPT under consideration, within the preceding 12-month period, shall be among the aspects to be considered in determining the materiality of such:

Classification	Aggregate Transaction Value (12-month period)
Material Transactions	PhP50 Million and above
Significant transactions	PhP30 Million but less than PhP50 Million
<i>De Minimis</i> transactions	Below PhP30 Million

3. Material/significant RPTs shall be evaluated by the RPT Review Team to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.
4. After review, the RPT Review Team shall report the material/significant RPTs to the RPT Committee for its evaluation, approval and/or endorsement to the Board.
5. Significant RPTs shall require the approval of the RPT Committee while material RPTs shall require endorsement of the RPT Committee and approval by the Board.
6. *De Minimis* RPTs entered in the ordinary course of business shall neither require review by the RPT Committee nor approval by, and reporting to, the Board.
7. The Board may require that a material RPT be also submitted to the stockholders for consideration and ratification. In such case, a majority of non-related party shareholders shall be required to approve this RPT during shareholders' meetings.

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8. Regardless of the amount of the transaction or contract, RPTs entered into by a director or corporate officer in his/her personal capacity must be approved by the Board. These RPTs shall be voidable at the option of the Company, except when all the following conditions are present:

- a. The presence of the Director in the board meeting in which the contract or transaction was approved was not necessary to constitute a quorum for such meeting;
- b. The vote of such Director was not necessary for the approval of the contract;
- c. The transactions are fair, and on terms comparable to those that could be obtained at arm's length dealings with an unrelated third party, or can be justified on a legitimate business case basis; and
- d. In the case of a Corporate Officer, the contract has been previously authorized by the Board of Directors.

However, that when conditions 8.a and 8.b are absent in the case of a transaction or contract with a Director, such RPT may be ratified either by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock of the Company or by the vote of the stockholders representing majority of the outstanding capital stock of the Company excluding that of the affected Director, whichever is lower.

9. All recurring RPT contracts that have a term that exceeds one (1) year must be reviewed and approved on an annual basis to determine whether to continue/renew the same.

V. EXEMPT RPTs

The following are considered Exempt Related Party Transactions ("Exempt RPTs") which shall not require RPT Committee review and approval, but may require regular reporting to the Board of Directors:

1. *De minimis* transactions which are unusual and non-recurring;
2. Compensation of directors and employment of executive officers approved or endorsed by the Remuneration and Leadership Development Committee or the Board;
3. Transfer of resources or transactions between the Company and its wholly-owned subsidiaries in connection with the funding of operations of the Company's business units and projects, or other transactions with the objective of providing shared services or for other services for operational efficiency of a common parent company;

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4. Transactions between two (2) or more wholly owned subsidiaries or affiliates of the Company with the objective of providing shared services or for other services for operational efficiency of the Company;
5. Share transactions such as dividends, repurchase, rights offerings, available to all shareholders on a pro-rata ownership basis;
6. Any transaction with a Related Party involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority;
7. Transactions with similar terms available to all employees generally.

VI. PROHIBITED RPTs

Notwithstanding any provision of this Policy to the contrary, the following RPTs shall not be allowed:

1. Loans and/or financial assistance to a Director;
2. Loans and/or financial assistance to the Executive Officers, except when allowed pursuant to an established company benefit or plan.

VII. DISCLOSURE AND REPORTING

1. A Related Party or the Company or any of its subsidiaries or affiliates, as the case may be, shall disclose material/significant RPT to the RPT Review Team prior to entering into the transaction except when the transaction is considered exempt under this Policy. RPTs involving directors, officers or employees shall likewise be disclosed in the Full Business Interest Disclosure or Conflict of Interest Forms and submitted to the Compliance Officer, through the Corporate Governance Office, not later than January 31 of every year.
2. The Company's CFO shall ensure that the financial officers or controllers of the group or business responsibility units and employees who are responsible for identification and monitoring of existing and potential RPTs are reporting the RPTs to the CFO.

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3. The RPTs shall be disclosed in the Company's financial statements, and other applicable filings in accordance with the relevant rules and issuances of the Securities and Exchange Commission and other regulatory bodies.

VIII. SANCTIONS

1. Any officer or employee of the Company who has knowledge of any violation of this Policy shall report the same to the Office of the Compliance Officer, through the Corporate Governance Office.
2. The Compliance Officer, shall report to the RPT Committee all violations of this Policy and sanctions imposed in accordance with the Code of Ethics, Code on Right Employee Conduct (COREC) and other applicable policies of the Company.
3. The RPT Committee shall have the authority to recommend to the Board of Directors the invalidation of the transaction.
4. This Policy shall be without prejudice to the provisions of the Revised Manual of Corporate Governance and all related and relevant policies of the Company which shall be observed and shall apply to the fullest extent possible.

IX. REVIEW AND AMENDMENTS

This Policy shall be regularly reviewed and updated to conform to the requirements of applicable law, rules and regulations.

X. EFFECTIVITY

This Related Party Transactions Policy and Guidelines will take effect fifteen (15) days from date of the approval of this Policy.

All existing policies, systems, practices, and related implementing guidelines concerning the same matters covered by this Policy are deemed revoked and superseded by this Policy insofar as inconsistent with the provisions hereof.

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ANNEX A: IAS 24 DEFINITIONS AND EXAMPLES OF RPTs

A related party is:

- a. A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled or jointly controlled by a person defined in (a).
 - vii. A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The following are considered as RPTs when performed with a Related Party:

- a. Purchases or sales of goods.
- b. Purchases or sales of property and other assets
- c. Rendering or receiving of services

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- d. Lease
- e. Transfers of research and development
- f. Transfers under license agreements
- g. Transfers under finance arrangements (including loans and equity contributions in cash or in kind)
- h. Provisions of advances, donations, guarantees or collateral
- i. Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

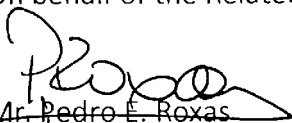
Close members of the family of a person include:

- a. that person's children and spouse or domestic partner;
- b. children of that person's spouse or domestic partner; and
- c. dependents of that person or that person's spouse or domestic partner.

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ENDORSED BY:

On behalf of the Related Party Transactions Committee



Mr. Pedro E. Roxas

Chairperson, Related Party Transactions Committee

APPROVED BY:

On behalf of the Meralco Board



Mr. Manuel V. Pangilinan

Chairman of the Board