

MAYNILAD WATER SERVICES, INC.

MANUAL ON CORPORATE GOVERNANCE

PART I OBJECTIVE

This Manual on Corporate Governance shall institutionalize the principles of good corporate governance in Maynilad Water Services, Inc.

PART I DEFINITION OF TERMS

When used herein, the following terms shall have the meanings ascribed to them below.

- a. **“Articles”** means the Articles of Incorporation of the Corporation.
- b. **“Board of Directors”** or **“Board”** means the Board of Directors of the Corporation.
- c. **“By-Laws”** means the By-Laws of the Corporation.
- d. **“Director”** means any member of the Board of Directors of the Corporation.
- e. **“Corporation”** means Maynilad Water Services, Inc.
- f. **“Corporation Code”** means Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines.
- g. **“Independent Director”** means a Director who is independent of Management and the controlling stockholder and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a Director.
- h. **“Management”** means the group of executives or officers given authority by the Board of Directors to implement the policies laid down by it for the conduct of the business of the Corporation.
- i. **“Manual”** means this Manual on Corporate Governance of the Corporation.
- j. **“Non-Executive Director”** means a director who has no executive responsibility and does not perform work related to the operations of the Corporation.
- k. **“SEC”** means the Securities and Exchange Commission of the Philippines.
- l. **“SRC”** means Republic Act No. 8799, otherwise known as the Securities Regulation Code of the Philippines.

PART III GOVERNANCE

A. Board of Directors

1. Governance by the Board

The Board of Directors is primarily responsible for the governance of the Corporation. The Board shall foster the long-term success of the Corporation and sustain its competitiveness and profitability in a manner consistent with corporate objectives and the best interests of its stockholders and other stakeholders.

2. Responsibilities, Duties, and Functions of the Board

The Board shall conduct itself with utmost honesty and integrity in the performance of, among others, the following duties, functions, and responsibilities:

- a. Oversee the development of and approve the Corporation's business objectives and strategies and monitor their implementation in order to sustain the Corporation's long-term viability and strength;
- b. Implement a process for selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- c. Adopt a system of checks and balances within the Board and conduct regular review of the effectiveness of such system to ensure the integrity of decision-making and reporting processes;
- d. Constitute board committees as it deems necessary to assist the Board in the performance of its duties and responsibilities;
- e. Keep activities and decisions of the Board within its authority under the Articles and By-Laws, and in accordance with existing laws, rules and regulations;
- f. Meet at such times or frequency as may be needed;
- g. Appoint competent, professional, honest and highly-motivated management officers, and adopt an effective succession planning program for Management;
- h. Ensure a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness;
- i. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operational and financial viability;
- j. Formulate and implement policies and procedures that would ensure integrity and transparency of related party transactions;

- k. Establish and make available an alternative dispute resolution mechanism to resolve intra-corporate disputes in an amicable and effective manner;
- l. Establish and maintain an investor relations program to keep stockholders informed of important developments in the Corporation;
- m. Identify stakeholders in the community where the Corporation operates or which are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them; and
- n. Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.

The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities, and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the Directors in the performance of their functions and shall be publicly available and posted on the Corporation's website.

3. Board Composition and Membership

- a. The Directors shall be elected at each annual meeting of the stockholders in accordance with the By-Laws. They shall hold office until the next annual meeting or until their successors shall have been duly elected and qualified.
- b. The Board shall be composed of fifteen (15) Directors or such other number as the Articles shall provide. At least three (3) or such number as to constitute at least twenty percent (20%) of the total number of Directors, whichever is higher, shall be Independent Directors.
- c. The Board shall be headed by a competent and qualified Chairperson.
- d. The Board shall be composed of a combination of executive and non-executive directors with collective working knowledge, experience or expertise that is relevant to the Corporation's business. The Board shall set a policy on board diversity.
- e. The Board may consider adopting guidelines on the number of directorships that the Directors can hold in other corporations. The optimum number should take into consideration the capacity of a Director to diligently and efficiently perform his/her duties and responsibilities.

4. Independent Directors

- a. An Independent Director shall serve for a maximum cumulative term of nine (9) years but may continue to qualify for nomination and election as a non-independent director after such period.

In the event that the Corporation intends to retain an Independent Director who has served for nine (9) years in the same capacity as Independent Director, the Board shall provide meritorious justifications therefor and seek stockholders' approval during the annual stockholders' meeting.

- b. Independent Directors should always attend Board meetings, except for justifiable causes. Unless otherwise provided in the By-Laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one Independent Director in all its meetings.

5. Duties and Conduct of a Director

The office of a Director is one of trust and confidence. A Director should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Corporation towards sustained progress.

A Director shall observe the following norms of conduct:

- a. Conduct fair business transactions with the Corporation and ensure that his/her personal interests do not conflict with the interests of the Corporation;
- b. Devote the time and attention necessary to properly and effectively perform his/her duties and responsibilities;
- c. Act judiciously;
- d. Exercise independent judgment;
- e. Have a working knowledge of statutory and regulatory requirements that affect the Corporation, including the Articles and By-Laws, SEC rules and regulations and, where applicable, the requirements of relevant regulatory agencies; and
- f. Observe confidentiality.

A Director (including Independent Directors) should possess all the qualifications and none of the disqualifications under applicable laws and regulations.

B. Board Committees

The Board shall establish the following committees (the “**Board Committees**”) to support the Board in the effective performance of its functions.

1. Executive Committee

- a. Functions - The Executive Committee shall have the following functions:
 - i. Pass and act upon matters affecting general policy and upon such matters as the Board may entrust to it for action in between meetings of the Board;
 - ii. Provide oversight on the Company’s operations;
 - iii. Assist in developing and reviewing the organization's strategic plan; and
 - iv. Review the Company’s key financial and investment decisions.

The specific functions, duties and responsibilities of the Executive Committee shall be contained in its charter which, once adopted, shall be read as part of, and shall form an integral part of this Manual, and shall be posted on the Corporation's website.

- b. Composition - The Executive Committee shall be composed of at least five (5) Directors.

2. Audit, Risk Oversight, and Related Party Committee

- a. Functions - The Audit, Risk Oversight, and Related Party Committee shall have the following functions:
 - i. *Audit* - oversee the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations;
 - ii. *Risk Oversight* - oversee the Corporation's enterprise risk management system to ensure its functionality and effectiveness; and
 - iii. *Related Party Transactions Review* - review material related party transactions of the Corporation.

The specific functions, duties and responsibilities of the Audit, Risk Oversight, and Related Party Committee shall be contained in its charter which, once adopted, shall be read as part of, and shall form an integral part of this Manual, and shall be posted on the Corporation's website.

- b. Composition - The Audit, Risk Oversight, and Related Party Committee shall be composed of at least five (5) Directors, majority of whom are Independent Directors, including the committee Chairperson. Other Directors shall be allowed to attend committee meetings as observers/advisors.

3 Corporate Governance and Sustainability Committee

- a. Functions - The Corporate Governance and Sustainability Committee shall have the following functions:
 - i. *Corporate Governance Oversight* - oversee the implementation of the corporate governance framework of the Corporation and periodically review the same to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy as well as its business and regulatory environments; and
 - ii. *Sustainability Oversight* – identify material economic, environmental, ethical and social impact of the Corporation's business and operations and determine their effect on its long-term objective to be recognized as a responsible and sustainable business and significant contributor to nation-building.

The specific functions, duties and responsibilities of the Corporate Governance and Sustainability Committee shall be contained in its charter which, once adopted, shall be read as part of, and shall form an integral part of this Manual, and shall be posted on the Corporation's website.

- b. Composition - The Corporate Governance and Sustainability Committee shall be composed of at least five (5) members of the Board, majority of whom are independent directors, including the committee Chairperson. Other Directors shall be allowed to attend committee meetings as observers/advisors.

4. Nomination and Compensation Committee

- a. Functions – The Nomination and Compensation Committee shall have the following functions:
 - i. *Nomination* - pre-screen and shortlist all candidates nominated to be a Director or Independent Director in accordance with the qualifications and disqualifications under the Corporation Code, the Securities Regulation Code, the Corporation's legislative franchise insofar as independent directors are concerned, pertinent rules and regulations, and those set by the Board; and
 - ii. *Compensation* - establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors and provide oversight over remuneration of senior management and other key personnel to ensure that the compensation levels are consistent with the Corporation's culture, strategy and control environment.

The specific functions, duties and responsibilities of the Nomination and Compensation Committee shall be contained in its charter which, once adopted, shall be read as part of, and shall form an integral part of this Manual, and shall be posted on the Corporation's website.

- b. Composition - The Nomination and Compensation Committee shall be composed of at least five (5) members of the Board, two (2) of whom are independent directors and the remaining three (3) are Non-Executive Directors. Other Directors shall be allowed to attend committee meetings as observers/advisors.

C. Chief Executive Officer

- 1. The Chief Executive Officer ("CEO") shall be appointed by the Board. The roles of Chairman of the Board and CEO shall, as much as practicable, be separate.
- 2. The CEO shall:
 - a. determine the Corporation's strategic direction and formulate and implement its strategic plan;

- b. communicate and implement the Corporation's vision, mission, values, and overall strategy and promote organization or stakeholder change in relation to the same;
- c. oversee the operations of the Corporation and manage human and financial resources in accordance with the strategic plan;
- d. have a good working knowledge of the Corporation's industry and market and be up-to-date with its core business purpose;
- e. direct, evaluate, and guide the work of key officers of the Corporation;
- f. manage the Corporation's resources prudently;
- g. provide the Board with timely information and interface between the Board and the employees;
- h. build the corporate culture and motivate employees of the Corporation; and
- i. serve as the link between internal operations and external stakeholders.

D. Corporate Secretary

1. The Board shall appoint a Corporate Secretary who shall be a Filipino citizen and a resident of the Philippines.
2. The Corporate Secretary shall:
 - a. assist the Board and the Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and Board Committee meetings;
 - b. be responsible for the safekeeping and for preserving the integrity of minutes of meetings of the Board and the Board Committees and other official records of the Corporation;
 - c. inform the members of the Board and the Board Committees of the agenda of their meetings in accordance with the By-Laws, and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters requiring their approval;
 - d. attend all Board meetings, except when justifiable causes prevent such attendance;
 - e. ensure that all Board procedures, rules and regulations are followed;
 - f. provide advice on the establishment of the Board Committees and their terms of reference;
 - g. keep abreast of all laws, rules and regulations, as necessary in the performance of his/her duties and responsibilities;
 - h. annually attend a training on corporate governance; and

- i. perform such other duties and responsibilities as may be required by the SEC.

E. Compliance Officer

1. The Board shall designate a Compliance Officer who shall hold the position of Vice President or its equivalent. The Compliance Officer shall have direct reporting responsibilities to the Chairman of the Board.
2. The Compliance Officer shall have the following duties and responsibilities:
 - a. Monitor the Corporation's compliance with the provisions of this Manual and the rules and regulations of pertinent regulatory agencies and, if any violations are found, report the matter to the Board; recommend the imposition of appropriate disciplinary action on the responsible parties and adoption of measures to prevent repetition of the violation;
 - b. Appear before the SEC when summoned in relation to compliance with this Manual;
 - c. Annually attend a training on corporate governance;
 - d. Ensure (i) proper onboarding of new Directors and (ii) attendance of Directors and key officers in relevant corporate governance trainings;
 - e. Identify possible areas of compliance issues and collaborate with the relevant divisions to properly address these issues; and
 - e. Perform such other duties and responsibilities as may be required by the SEC.

F. External Auditor

1. An External Auditor shall be selected and appointed by the stockholders during the annual stockholders' meeting, upon recommendation of the Audit, Risk Oversight, and Related Party Committee and approval by the Board.
2. The reasons for the resignation, dismissal or cessation from service of an External Auditor, and the date thereof, shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former External Auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.
3. The External Auditor of the Corporation shall not at the same time provide internal audit services to the Corporation. The Corporation shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor and if non-audit work is allowed, the same should be properly disclosed.
4. The External Auditor shall be rotated or changed at least once every five (5) years, or the signing partner of the external auditing firm assigned to the Corporation, should be changed with the same frequency.

5. If an External Auditor believes that any statement made in the Corporation's annual report, information statement or any report filed with the Commission or any regulatory body during the period of his/her engagement is incorrect or incomplete, he shall give his/her comments or views in said reports.

G. Internal Auditor

1. The Audit Committee shall establish an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which the Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.
2. The Internal Auditor shall directly report functionally to the Audit, Risk Oversight, and Related Party Committee, and administratively, to the CEO.
3. Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal controls. There shall be an Internal Audit Charter which shall be approved by the Board.

**PART IV
STOCKHOLDERS' RIGHTS AND
PROTECTION OF MINORITY STOCKHOLDERS**

A. Stockholders shall have the following rights:

1. Voting Right

- a. The stockholders shall have the right to elect, remove and replace Directors and to vote on certain corporate acts in accordance with the Corporation Code and the Articles.
- b. Cumulative voting shall be used in the election of Directors.
- c. A Director shall not be removed without cause if it will deny minority stockholders representation in the Board.
- d. Although all stockholders should be treated equally and without discrimination, the minority stockholders shall have the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.

2. Right to Inspect Corporate Books and Records / Right to Information

All stockholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements. A stockholder shall have a right to inspect corporate records in accordance with the Corporation Code and relevant laws.

3. Right to Dividends

The stockholders shall have the right to receive dividends on the basis of outstanding stock held by them, subject to the discretion of the Board and the Corporation's dividend policy.

4. Appraisal Right

Any stockholder of the Corporation shall have the right to dissent and demand payment of the fair value of his/her shares in the instances provided under the Corporation Code.

5. Right to Attend and Participate in Meetings

- a. The Board shall exercise transparency and fairness in the conduct of the Corporation's annual and special stockholders' meetings, and stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised of their right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of the right to appoint a proxy shall not be unduly restricted. Any doubt concerning the validity of a proxy shall be resolved in the stockholders' favor.
- b. The Board shall take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy.
- c. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

- B. The Board shall promote the rights of the stockholders, remove impediments to the exercise of such rights, and provide adequate avenue for them to seek timely redress for any breach thereof.

**PART V
DISCLOSURE AND TRANSPARENCY**

All material information about the Corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders, or otherwise required to be disclosed by the Corporation, shall be disclosed in a timely manner through the appropriate mechanisms for publicly-listed companies.

**PART VI
ADEQUATE AND TIMELY INFORMATION**

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him/her to properly perform his/her duties and responsibilities. Hence, a member of the Board shall have independent access to the Management and the Corporate Secretary.

The information which a member of the Board may request include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts, and internal financial documents.

The Directors, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice at the Corporation's expense.

PART VII COMMITMENT TO GOOD CORPORATE GOVERNANCE

A. Corporate Governance Trainings

1. A Director shall, before assuming his/her position, be required to attend a seminar or training on corporate governance.
2. Directors shall also undergo an annual training on corporate governance matters relevant to the Corporation, including audit, internal controls, risk management, sustainability, and strategy.

B. Monitoring and Assessment

The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation of the provisions of this Manual shall subject the responsible officer or employee to the penalty provided under Part VIII of this Manual.

C. Governance Self-Rating System

The Board may create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided in this Manual.

PART VIII PENALTIES FOR NON-COMPLIANCE

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed on the Corporation's Directors, officers, and employees who are found (after due notice and hearing) to have violated this Manual:

- a. **First violation** - reprimand;
- b. **Second violation** - suspension from office, the duration of which shall depend on the gravity of the violation; and
- c. **Third violation** - maximum penalty of removal from office.

The commission of a third violation of this Manual by a Director shall be a sufficient cause for removal from directorship.

The Compliance Officer shall be responsible for determining violations and shall recommend to the Chairman of the Board the impossible penalty for such violation, for further review and approval by the Board.