	RISK MANAGEMENT POLICY	
	Policy No.: PS-OPS-004-R22018	Effective Date: 15 January 2025 Revision No.: 2


I. PURPOSE AND SCOPE

All activities undertaken by Maynilad carry an element of risk. It is inherent to the Company's business environment. Therefore, risk management should be central to the Company's strategic management. This policy aims to embed risk management principles into strategy development and day-to-day operational processes, ensuring a robust and proactive approach to achieving business outcomes.


The policy (i) expresses Maynilad's commitment to a comprehensive approach to Risk Management, (ii) clarifies organizational roles and responsibilities, and (iii) outlines the structure, framework, and guidelines for managing its vulnerabilities.

II. DEFINITION OF TERMS

- 1. Business Environment** – the sum or collection of all internal and external factors and forces influencing a business. Internal and external factors include employees, customers, supply and demand, management, clients, suppliers, activities by government, technological innovations, social trends, market trends, and economic changes.
- 2. Business Units (BUs)** – refers to Maynilad divisions.
- 3. Company/Organization/Entity** – refers to Maynilad Water Services, Inc.
- 4. Controls** – measures that include, but are not limited to, any process, policy, device, practice, or other conditions and/or actions that maintain and/or modify the risk.
- 5. Enterprise Risk Management (ERM)** – a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of these risks as an interrelated risk portfolio.
- 6. ERM Framework** – the set of components that provide the foundations and organizational arrangements in the design, implementation, monitoring review, and continual improvement of Risk Management throughout the organization.
- 7. Risk** – an event or activity that may have an impact on a Company's ability to effectively execute its strategies and achieve its objectives or which may cause a significant opportunity to be missed.
- 8. Risk Appetite** – is the level of risk that Maynilad is prepared to accept in pursuit of its objectives before action is deemed necessary to reduce the risk. It represents a balance between the potential benefits of action and the vulnerabilities that such may result in.
- 9. Risk Management** – the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of adverse events or to maximize the realization of opportunities.
- 10. Risk Owner** - An individual or head, with the responsibility, authority, and accountability to manage the Risk.
- 11. Risk Treatment Action Plan (RTAP)** – refers to developing additional or new controls, or redesigning existing controls.
- 12. Operational Risk Register (ORR)** – list of risks arising from day-to-day activities such as inadequate or failed internal processes, people and systems or some external events or factors that impact the daily routine activities.

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- 13. Opportunity** – encompasses both the potential positive outcome arising from uncertainties or changes that can be exploited to achieve objectives, and the potential for favorable impacts or benefits.
- 14. Scenario Analysis** – involves evaluating the potential impacts of specific hypothetical scenarios on an organization. It focuses on understanding how different risks or uncertainties could affect key aspects like financial performance, operations, or strategy, helping the organization prepare for potential future events.
- 15. Scenario Planning** – a broader strategic process that involves creating and analyzing a range of plausible future scenarios to guide decision-making and long-term planning. It helps organizations explore and prepare for different possible futures by considering how various external factors could evolve and impact the organization.
- 16. Strategic Risk Register (SRR)** – a list containing the risks that arise from the business environment such as demographic, economic, political, natural, technological, and other factors that could significantly impact the Company's business operations.
- 17. Sustainability-Related Risks and Opportunities (SRRO)** – refer to risks and opportunities that could significantly impact an entity's cash flows, access to finance, or cost of capital over different time horizons (short, medium, or long term). These arise from the entity's interactions with various stakeholders—such as society, the economy, and the natural environment—across its value chain. It encompasses a wide range of environmental, social, and governance (ESG) issues. For example, the depletion of natural resources could negatively affect the entity's operations and financial performance, while efforts to preserve or regenerate resources could enhance its value. All risk categories fall under SRRO, and some are further classified as Climate-Related Risks and Opportunities.
- 18. Climate-Related Risks and Opportunities (CRRO)** – refer to how climate change can impact an entity's financial performance, including its cash flows, access to finance, and cost of capital over similar time horizons. These focus specifically on the effects of climate change—such as regulatory changes, physical impacts, or shifts in market demand—on the entity. Disclosing these risks and opportunities helps stakeholders make informed decisions about their engagement with the entity, such as providing resources.
- 18.1 Climate-related risks** – refer to the potential negative impacts of climate change on an entity. These risks are divided into physical risks and transition risks. These risks can affect an entity's financial performance by causing direct damage to assets, disrupting supply chains, or altering factors like water availability and temperature, which can impact operations, transportation and employee safety.
- 18.2 Climate-related opportunities** – arise from efforts to address climate change. These opportunities include improving resource efficiency, reducing costs, adopting low-emission energy, developing new products, and entering new markets. For example, investing in renewable energy can lower costs and enhance a company's reputation.
- 19. Time Horizons** - refers to the period risks are assessed, managed, and monitored. It can be categorized into short, medium, and long-term.

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III. GENERAL POLICY STATEMENT

As a water utility Company serving the west concession area of Metro Manila and nearby provinces, Maynilad understands that there are inherent risks to its business environment. These risks, if not properly managed, could threaten its ability to provide quality service and meet its business objectives and obligations to its various stakeholders.

Maynilad shall identify and manage these risks at the appropriate levels. It shall address the opportunities and threats by adopting an Enterprise Risk Management System (ERMS). This ERMS includes the ERM Framework and the specific processes in the management of risks and opportunities to help the Company achieve its objectives and desired performance results.


IV. DISTRIBUTION

This policy applies to all Business Units ("BUs") to enable them to comply with the risk management requirements set out in this policy.

V. POLICIES AND STANDARDS

A. Roles and Responsibilities

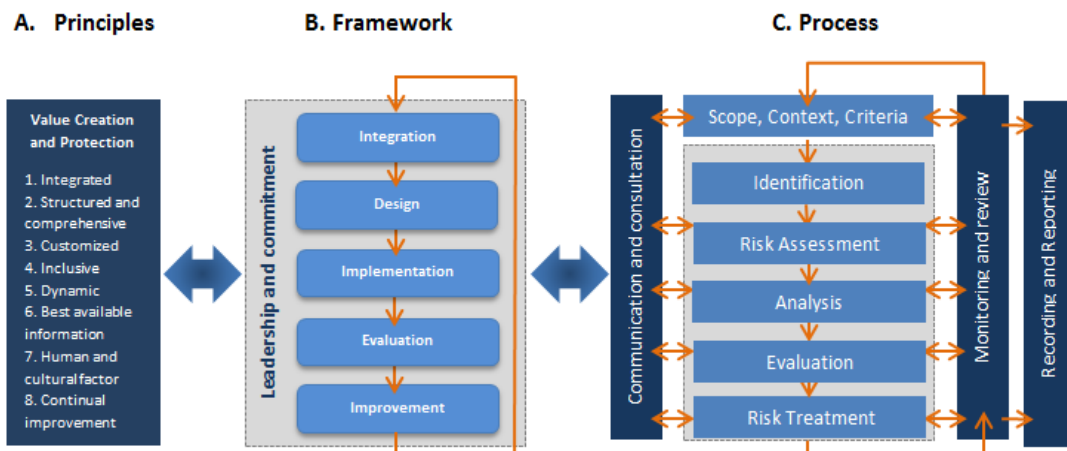
Roles	Responsibilities
Board of Directors	<ul style="list-style-type: none"> Ascertains that management has developed and implemented an effective risk management framework including the setting of Risk Appetite, with assistance from the Risk Management Committee.
Risk Oversight Committee	<ul style="list-style-type: none"> Oversee the implementation and effectiveness of the Company's risk management framework. Support the Board's risk management oversight, including setting risk appetite and implementing policies, systems, and controls. Review and advise Maynilad Management on key risk strategies, providing recommendations and guidance as needed.
President and CEO	<ul style="list-style-type: none"> Overall owner of the ERM priorities, policies, strategies, and plans. Approve Maynilad Risk Management Policy and changes therein Lead the overall management of Maynilad's Top Strategic Risks. Report to the Board the effectiveness of the Risk Management Framework and the management of its material risks. Set the overall tone that will help drive the Company's risk culture.
Division Heads	<ul style="list-style-type: none"> Overall owners of the strategic and operational risks within their respective BUs. Lead the identification, monitoring, and management of divisional risks with potential material impact on the Company, including emerging risks and vulnerabilities. Provide inputs on key risks for presentation to the Maynilad Risk Management Committee.
Department Heads and /or Representatives	<ul style="list-style-type: none"> Primary owners of risks within their departments. Lead the identification, monitoring, and management of departmental risks with potential material impact on divisional operations. Responsible for updating, communicating, and reporting the status of the risks and monitoring the implementation of RTAP.


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Roles	Responsibilities
Strategic Risk Core Team (Composed of Divisional/ Department Representatives)	<ul style="list-style-type: none"> Coordinate with the different departments in their divisions to ensure risks are identified and assessed, and the mitigating measures are implemented, monitored, and reported. Provide inputs, findings, analysis, and evaluation of Maynilad's top risks.
Operational Risk Register Champion	<ul style="list-style-type: none"> Facilitate the review and/or updating of the Operational Risk Register (ORR), and communication of updates to relevant stakeholders
ERM	<ul style="list-style-type: none"> Responsible for overseeing the strategic planning, implementation, and continuous maintenance of an effective Risk Management System. Report and communicate the Company's top key risks to the Board/ Risk Management Committee, President/CEO, Top Management Team, and other key stakeholders. Initiate annual risk control validation and audits.
Internal Audit	<ul style="list-style-type: none"> Provide an independent assessment of the effectiveness of the ERM framework, processes, and risk treatment strategies.
All Personnel	<ul style="list-style-type: none"> Maintains awareness and consciousness about ERM, as well as how the identified risks will impact their roles and responsibilities in the organization. Embeds risk management as part of their daily activities. Execute risk treatment strategies to ensure the achievement of the organization's objectives, and report emerging risks/opportunities. Communicate to their immediate superiors any risk that they cannot manage.

B. Risk Management System

Maynilad shall adopt a Risk Management System ("RMS") that is consistent with the ISO 31000 Risk Management principles and guidelines as shown below.



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1. Principles

- a. Maynilad's Risk Management System (RMS) shall adhere to the principles of protecting and creating value for the business. It aims to:
 - (i) establish and sustain value;
 - (ii) be integrated into the organizational processes and decision-making;
 - (iii) deliberately address uncertainty;
 - (iv) be structured, systemic, and timely;
 - (v) be based on the best available information;
 - (vi) take human and cultural factors into account;
 - (vii) be transparent and inclusive;
 - (viii) be dynamic, iterative, and responsive to change; and
 - (ix) facilitate continual improvement of the organization.

2. Framework

- a. Maynilad shall follow a Risk Management Framework ("RMF") that fosters key leadership commitment from top management to integrate, design, implement, evaluate, and continually improve its approach to address its vulnerabilities. This RMF shall be anchored on strong ownership, responsibility, authority, and accountability over the risks inherent to the Business Unit operations.
- b. The Division Heads as the overall owners of the strategic and operational risks within their respective BUs shall provide the leadership and commitment in driving the appropriate risk management initiatives. These initiatives shall balance the cost of managing the risks and the anticipated benefits. These shall also include contingency plans to ensure business continuity and recovery from disaster should this occur.

3. Process


To ensure effective Risk Management, each BU shall implement a robust process, that includes Scenario Planning and Analysis. This process shall clearly define the ff.:

a. Establishment of Scope, Context, and Criteria

Each BU shall ensure that the appropriate scope, context, and criteria are clearly defined as an integral part of the risk management process.

	Strategic Risk	Operational Risk
Scope	Maynilad-wide business operations	Department level operations
Context	Business environment, operations, geographic, demographic, economic, political, natural and technological factors, and others	Purpose, roles, responsibilities, and processes in achieving department-level KRA
Criteria	Business objectives/growth, Financial/Value at Risk, Public Image, Compliance, Presence of Fraud, Business Continuity, Information/Cybersecurity and Data Privacy, People	

Scenario planning aligns with setting objectives and understanding the context for risk management. It provides a framework for defining what uncertainties need to be

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considered. Clearly define the purpose of the scenario planning exercise i.e. identifying potential threats, developing new strategies, or testing existing ones.

Use scenario analysis to understand external and internal factors that might impact the organization, such as regulatory changes, technological advancements, or economic shifts.

b. *Risk and Opportunity Assessment*

Encompasses the overall process of identifying, analyzing, and evaluating risks and opportunities.

i. *Risk and Opportunity Identification* – Each BU shall identify events, vulnerabilities, opportunities, or changes in circumstances that could either facilitate or hinder the achievement of its objectives. This includes:

1. *Strategic Risks and Opportunities*: Arising from the business environment, such as demographic, economic, political, natural, and technological factors. Identified strategic risks are listed in the Risk Universe.
2. *Operational Risks and Opportunities*: Related to daily operations, including internal processes, people, systems, or external events, and potential opportunities to enhance operational efficiency.


Scenario planning will enhance this process by identifying key drivers and forces that impact risk exposure. By analyzing internal factors, such as leadership changes and resource allocations, and external factors like economic, social, technological, and regulatory developments, each BU can anticipate significant risks, recognize critical trends, and address uncertainties that may affect the organization.

Through *scenario analysis*, BUs can capture a wider range of potential risks, including emerging or indirect threats not apparent in daily operations. Developing scenarios that explore a range of possible outcomes– best-case, worst-case, and most-likely–will better prepare the organization for different possible futures.

ii. *Risk and Opportunity Analysis* – This entails thorough analysis of identified risks and opportunities to determine their nature, potential impact, and benefits. A crucial part of this analysis is understanding how driving forces and trends may change over time, which is key to identifying emerging risks and opportunities.

Use *scenario planning and analysis* to explore various potential future outcomes based on critical uncertainties. This strategy enables the organization to anticipate diverse future scenarios and evaluate their potential impact on the risk environment.

iii. *Risk and Opportunity Evaluation* – In this step, the significance of analyzed risks and opportunities is assessed by comparing them against established criteria to prioritize management actions. This phase also uses scenario analysis to evaluate potential outcomes, helping the organization understand what future states might mean, what risks and opportunities could arise, and how existing strategies might perform under different conditions. The evaluation process determines which risks need immediate attention and which opportunities to pursue, guiding strategic decisions across the organization.

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c. *Risk and Opportunity Treatment*

Address identified risks and opportunities through Risk Treatment Action Plans (RTAP) or Opportunity Response Plans (ORP). These plans shall clearly define responsibilities, specific deliverables, and timelines for completion.

Developing flexible strategies based on evaluated scenarios is essential to ensure that responses can adapt to different potential futures. This step is crucial for effectively managing identified risks and seizing opportunities while keeping strategies robust and adaptable across various scenarios.

d. *Communication and Consultation*

During the definition of scope, context, and criteria, the risk and opportunity assessments, and the development of RTAPs/ORPs, BUs shall communicate and consult with relevant stakeholders. Inputs from these consultations will enhance the understanding of the risks and opportunities at hand and improve the implementation of strategies.

e. *Monitoring and Review*

Risk owners shall regularly monitor identified risks and opportunities, ensuring that RTAPs and/ or ORPs are continuously and effectively implemented.

- Risk audit and control validation - Annual
- Strategic risk register review - Semi-Annual
- Operational risk register review - Quarterly
- Arising matters - As needed/Real Time

Emerging risks shall be analyzed to provide insights and opportunities for continual improvement.

Scenario planning, which involves continuous monitoring and updating to reflect changing conditions, must align with the overall monitoring and review process of risk management. This includes regularly assessing the effectiveness of implemented strategies, making necessary adjustments, and updating scenarios to keep the organization adaptable and well-prepared.

f. *Recording and Reporting*

All BUs shall ensure that all the identified risks and opportunities are recorded in the appropriate risk registers and reported periodically to the risk owners and the ERM. Scenario planning activities and outcomes shall also be documented in the report.

VI. MONITORING AND REVIEW

ERMIA shall regularly review the implementation of this policy, and initiate its revisions/updating, as may be necessary under the circumstances.