

# MANAGEMENT REPORT

---

## 1. FINANCIAL STATEMENTS

The Company's Audited Financial Statement and Supplementary Information as of and for the year ended 31 December 2023 is attached in this report as *Annex "A"*, whereas the *Unaudited Condensed Interim Financial Statement as of and for the period ended 31 March 2024* is attached herewith as *Annex "I-1"*.

## 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Audited Financial Statements as of and for the year ended 31 December 2023, as well as the notes thereto included in this report as *Annex "A"*, whereas the discussion and analysis as of and for the period ended 31 March 2024 should be read in conjunction with the related Unaudited Condensed Interim Financial Statements attached in this report as *Annex "I-1"*.

The Management's Discussion and Analysis (MD&A) for 2023 versus 2022 and 2022 versus 2021, was included in the Company's SEC Form 17-A<sup>1</sup>, Annual Report, under Item 6, while the MD&A as of and for the period ended 31 March 2024 was included in the Company's SEC Form 17-Q<sup>2</sup>, Quarterly Report, under Item 2.

The MD&A for the relevant periods are attached herewith as follows:

- *Annex "I-2"* – MD&A as of and for the year ended 31 December 2023; and
- *Annex "I-3"* – MD&A as of and for the period ended 31 March 2024

### 2.1. **Key Performance Indicators (KPIs)**

The relevant KPIs of the Company as of and for the year ended 31 December 2023, 2022 and 2021 and for the interim period ended 31 March 2024 are shown in the succeeding page. The said KPIs were included in the Company's SEC Form 17-A<sup>1</sup>, Annual Report as of and for the year ended 31 December 2023, and the Company's SEC Form 17-Q<sup>2</sup>, Quarterly Report, as of and for the interim period ended 31 March 2024.

---

<sup>1</sup> A copy of TEI's SEC Form 17-A, Annual Report, as of and for the year ended 31 December 2023 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-a-annual-report-as-of-and-for-the-year-ended-31-december-2023>

<sup>2</sup> A copy of TEI's SEC Form 17-Q, Quarterly Report, as of and for the period ended 31 March 2024 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-q-financial-report-as-of-and-for-the-period-ended-31-march-2024>

|  | 31 March<br>2024 | 2023    | 2022    | 2021    |
|--|------------------|---------|---------|---------|
| Return on Equity   |                  |         |         |         |
| <i>Net Profit divided by Average Equity</i>  | 0.01             | 0.14    | 0.16    | 0.15    |
| Return on Assets   |                  |         |         |         |
| <i>Net Profit divided by Average Assets</i>  | 0.01             | 0.07    | 0.08    | 0.06    |
| Debt to Equity Ratio   |                  |         |         |         |
| <i>Total Liabilities divided by Total Equity</i>   | 0.74             | 0.81    | 0.90    | 0.92    |
| Current Ratio  |                  |         |         |         |
| <i>Total Current Assets divided by Total Current Liabilities</i>   | 1.13             | 1.09    | 1.23    | 1.43    |
| Average Collection Period  |                  |         |         |         |
| <i>Average Accounts Receivable divided by Average Sales per day (Sale of Electricity divided 365 days)</i> | 57 days          | 55 days | 53 days | 73 days |

## 2.2. Key Variable and Other Qualitative and Quantitative Factors

The following identified liquidity risks of the Company were included in the Company's SEC Form 17-A<sup>3</sup>, Annual Report, as of and for the year ended 31 December 2023, and SEC Form 17-Q<sup>4</sup>, Quarterly Report.

### LIQUIDITY RISKS

The Company considers the following items to pose a risk on its ability to meet its obligations as they fall due: close of business due to pandemic, labor strike, typhoon or any force majeure event, and non-payment or delays in payment by its customers.

The Company manages its liquidity risks by carefully monitoring scheduled debt servicing payments as well as cash outflows due in a day-to-day business. Liquidity needs are monitored periodically, on a day-to-day, week-to-week basis, as well as on the basis of a rolling 30-day projection.

As of 31 December 2023, the Company's financial liabilities have contractual maturities as presented on the succeeding page.

<sup>3</sup> A copy of TEI's SEC Form 17-A, Annual Report, as of and for the year ended 31 December 2023 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-a-annual-report-as-of-and-for-the-year-ended-31-december-2023>

<sup>4</sup> A copy of TEI's SEC Form 17-Q, Quarterly Report, as of and for the period ended 31 March 2024 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-q-financial-report-as-of-and-for-the-period-ended-31-march-2024>

|                                       | Note<br>s | Current                 |                         | Non-current             |                              |
|---------------------------------------|-----------|-------------------------|-------------------------|-------------------------|------------------------------|
|                                       |           | Within 6 Months         | 6-12<br>Months          | 1 to 5 years            | Later than 5<br>years        |
| Trade Payables                        | 15        | P 259,452,202           | -                       | -                       | -                            |
| Accrued Expenses and other Payables   | 16        | 207,648,828             | -                       | 45,076,151.00           | -                            |
| Interest-bearing loans and borrowings | 12        | 80,823,289              | -                       | -                       | -                            |
| Advances from Customers               | 14, 16    | 107,777,570             | -                       | 170,961,077.00          | -                            |
| Dividends Payable                     |           | -                       | -                       | -                       | -                            |
| <b><u>Refundable Deposits</u></b>     | <b>13</b> | <b>=</b>                | <b>=</b>                | <b>=</b>                | <b><u>407,337,900.00</u></b> |
| <b><u>Lease Liability</u></b>         | <b>7</b>  | <b><u>1,417,782</u></b> | <b><u>1,417,782</u></b> | <b><u>4,445,501</u></b> | <b><u>-</u></b>              |
|                                       |           | <b>P 657,119,671</b>    | <b>1,417,782</b>        | <b>220,482,729</b>      | <b>407,337,900.00</b>        |

As of 31 March 2024, the Company's financial liabilities have contractual maturities as follows:

|                                       | Current                 |                     | Non-current           |                       |
|---------------------------------------|-------------------------|---------------------|-----------------------|-----------------------|
|                                       | Within 6 Months         | 6-12 Months         | 1 to 5 years          | Later than 5 years    |
| Trade Payables                        | P 310,768,994.00        | -                   | -                     | -                     |
| Accrued Expenses and other Payables   | 280,760,146.00          | -                   | 45,076,151.00         | -                     |
| Interest-bearing loans and borrowings | 41,052,742.00           | 739,153.00          | -                     | -                     |
| Advances from Customers               | 107,042,332.00          | -                   | 175,416,545.00        | -                     |
| Lease Liability                       | 1,234,021.00            | 1,222,965.00        | 3,419,990.00          | -                     |
| Refundable Deposits                   | -                       | -                   | -                     | 408,963,825.00        |
|                                       | <b>P 740,858,235.00</b> | <b>1,962,118.00</b> | <b>223,912,686.00</b> | <b>408,963,825.00</b> |

Whereas, as of 31 May 2024, the contractual maturities of the Company's financial liabilities<sup>5</sup> are estimated as follows:

|                                       | Current                      |                     | Non-current           |                       |
|---------------------------------------|------------------------------|---------------------|-----------------------|-----------------------|
|                                       | Within 6 Months              | 6-12 Months         | 1 to 5 years          | Later than 5 years    |
| Trade Payables                        | P 24,973,714.00 <sup>6</sup> | -                   | -                     | -                     |
| Accrued Expenses and other Payables   | 153,939,045.000              | -                   | 45,076,151.00         | -                     |
| Interest-bearing loans and borrowings | 110,927,664.00               | 593,251.000         | -                     | -                     |
| Advances from Customers               | 77,010,144.00                | -                   | 176,544,185.00        | -                     |
| Dividends Payable                     | 71,575,770.00                | -                   | -                     | -                     |
| Lease Liability                       | 1,636,924.00                 | 1,237,332.00        | 3,002,720.00          | -                     |
| Refundable Deposits                   | -                            | -                   | -                     | 428,705,637.00        |
|                                       | <b>P 740,858,235.00</b>      | <b>1,962,118.00</b> | <b>223,912,686.00</b> | <b>408,963,825.00</b> |

## COMMITMENTS AND CONTINGENCIES

The breakdown of the Company's provisions as disclosed in its SEC Form 17-A<sup>7</sup>, Annual Report, as of and for the year ended 31 December 2023 is presented on the succeeding page.

|                              | Power Cost<br>Over<br>Recoveries<br>(Note 26.1) | DWSA<br>(Note 26.2) | Total                |
|------------------------------|---|---------------------|----------------------|
| Balance at January 1, 2023   | P 36,594,890                                    | P 9,825,738         | P 46,420,628         |
| Provision                    | 140,137,121                                     | -                   | 140,137,121          |
| Balance at December 31, 2023 | <b>P 176,732,011</b>                            | <b>P 9,825,738</b>  | <b>P 186,557,749</b> |
| Balance at January 1, 2022   | P 13,875,691                                    | P 9,825,738         | P 23,701,429         |
| Provision                    | 36,594,890                                      | -                   | 36,594,890           |
| Reversal of provisions       | ( 13,875,691)                                   | -                   | ( 13,875,691)        |
| Balance at December 31, 2022 | <b>P 36,594,890</b>                             | <b>P 9,825,738</b>  | <b>P 46,420,628</b>  |
| Balance at January 1, 2021   | P 132,568,242                                   | P 9,825,738         | P 142,393,980        |
| Reversal of provisions       | ( 118,692,552)                                  | -                   | ( 118,692,551)       |
| Balance at December 31, 2021 | <b>P 13,875,690</b>                             | <b>P 9,825,738</b>  | <b>P 23,701,429</b>  |

<sup>5</sup> Based on transactions billed and booked as of 31 May 2024 and may not include transactions incurred as of and for the interim period ended 31 May 2024 that were not yet billed as of report date.

<sup>6</sup> The amount does not include power bills for May 2024 billing period amounting to around ₱330,000,000.00

<sup>7</sup> A copy of TEI's SEC Form 17-A, Annual Report, as of and for the year ended 31 December 2023 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-a-annual-report-as-of-and-for-the-year-ended-31-december-2023>

The breakdown as of 31 March 2024 as disclosed in its SEC Form 17-Q<sup>8</sup>, Quarterly Report, is presented below:

|                              | Power Cost<br>Over (Under)<br>Recoveries<br>(Note 24.1) | DWSA<br>(Note 24.2) | Total         |
|------------------------------|---|---------------------|---------------|
| Balance at January 1, 2024   | P 176,732,011   | P 9,825,738         | P 186,557,749 |
| Provisions                   | -   | -                   | -             |
| Reversal of provisions       | (121,999,136)   | -                   | (121,999,136) |
| Balance at March 31, 2024    | P 54,732,875  | P 9,825,738         | P 64,558,613  |
| Balance at January 1, 2023   | P 36,594,890  | P 9,825,738         | P 46,420,628  |
| Provisions                   | 140,137,121   | -                   | 140,137,121   |
| Reversal of provisions       | -   | -                   | -             |
| Balance at December 31, 2023 | P 176,732,011   | P 9,825,738         | P 186,557,749 |

As of 31 May 2024, the Company has no additional provisions for power cost over (under) recoveries.

## OTHER QUALITATIVE AND QUANTITATIVE FACTORS

The Company does not foresee that it will have any cashflow or liquidity problems within the next twelve (12) months from the date of this report.

The Company is not aware of any event that will trigger direct or contingent financial obligations that are material to the Company, including default or acceleration of any obligations other than those disclosed in this Management Report under commitments and contingencies.

The Company does not have any off-balance sheet transactions, arrangements, obligations, including contingent obligations, and other relationships with unconsolidated entities or other persons created during the relevant period.

The Company does not have any material commitments for capital expenditures other than those described under *Annex "I-4", Planned Capital Expenditures Program*, of this report.

The Company is not aware of any trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenues, income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

<sup>8</sup> A copy of TEI's SEC Form 17-Q, Quarterly Report, as of and for the period ended 31 March 2024 is posted in the Company's website and can be accessed thru this link: <https://tarlacelectric.com/sec-form-17-q-financial-report-as-of-and-for-the-period-ended-31-march-2024>

### 3. **BRIEF DESCRIPTION OF BUSINESS**

Tarlac Electric Inc. (“TEI” or “the Company”) is a domestic corporation duly organized under and by virtue of the laws of the Republic of the Philippines. It is a private electric distribution utility which holds a congressional franchise under Republic Act No. 10795 for a period of twenty-five (25) years from 18 October 2016. TEI’s Franchise grants it the authority to construct, operate, and maintain the electric power requirements of the City of Tarlac in the Province of Tarlac. On 17 November 2017, the Energy Regulatory Commission (“ERC”) issued TEI a Certificate of Public Convenience and Necessity (“CPCN”) for the operation of electric service within its franchise area.

TEI’s authorized capital stock is at One Billion Pesos (P1,000,000,000.00), divided into Ten Million (10,000,000) common shares with a par value of One Hundred Pesos (P100.00).

On 28 June 2021, the SEC approved TEI’s application for the registration of Five Million Seven Hundred Fifty Thousand (5,750,000) common shares of which One Million Seven Hundred Fifty Thousand (1,750,000) common shares were issued and offered for sale to the general public by way of primary offering at an initial price of Three Hundred Eighty Pesos (P380.00) per share. All of the One Million Seven Hundred Fifty Thousand (1,750,000) common shares offered for sale to the general public were fully subscribed as of 09 July 2021, with Two Hundred Twenty-Five Thousand (225,000) shares having been sold to retail investors, and One Million Five Hundred Twenty-Five Thousand (1,525,000) common shares to institutional investors.

The Company has a franchise area of two hundred seventy-five square kilometers (275 sqkm) and currently services six (6) consumer classes, consisting of the following: Residential, Small Commercial, Secondary, Primary, Sixty-Nine Kilovolt (69kV), and Streetlights. Primary and 69KV customers include contestable customers who have already switched to the Retail Competition and Open Access (RCOA) and Green Energy Option Program (GEOP).

As of 31 May 2024, TEI provides the electric power needs of around ninety-five thousand (95,000) customers in the City of Tarlac.

The Company is not dependent on any one or group of customers for at least twenty percent (20%) of its distribution revenues. The loss of a single customer or a few customers will not have a material adverse effect on TEI.

The Company has two (2) power suppliers, namely, GNPowder Mariveles Energy Center Ltd. Co. (formerly, GNPowder Mariveles Coal Plant Ltd. Co. or GMCP) (“GMEC”) and Tarlac Power Corporation (“TPC”).

Below are the details of TEI’s power supply contracts:

| <b>Supplier</b> | <b>Contracted Capacity</b> | <b>Duration of Contract</b>         |
|-----------------|----------------------------|-------------------------------------|
| TPC             | 14.88MW                    | April 2011 – April 2026             |
| GMEC            | 58MW <sup>9</sup>          | 26 February 2014 – 25 February 2029 |

<sup>9</sup> Effective 26 February 2024; 46.4MW effective 01 June 2024

In 2023, TEI requested a renegotiation with its suppliers to reduce its contracted capacity. GMEC, in its letter dated 13 March 2024, agreed to reduce TEI's contracted capacity by 20% or by 11.6MW. A manifestation was filed with the Energy Regulatory Commission on 31 May 2024 relative to the reduction effective 01 June 2024.

TEI also procures its electricity from the Wholesale Electricity Spot Market ("WESM") where it has been a direct member since 10 March 2014.

Also, TEI has an existing contract with the National Grid Corporation of the Philippines ("NGCP") for transmission and metering services which will expire on 25 December 2028.

TEI is dependent on the above-named suppliers for its supply of electric power because it can only procure from other suppliers upon approval by the ERC. The Company is likewise dependent on NGCP for its transmission and metering services because it is the sole provider thereof.

The Company is not limited to or dependent on any other supplier of materials and services.

The Company has no existing subsidiaries. Nonetheless, it entered into the following related party transactions as of and for the interim period ended 31 May 2024<sup>10</sup>:

- A lease agreement for office spaces with its President and General Manager, and Director, Mr. Vitus M. Romero. The rental fee as billed as of 31 May 2024 is Seventy-Five Thousand Pesos (₱75,000.00). There is no outstanding balance as of 31 May 2024;
- The following transactions with related parties under common ownership:

| Related Party                  | Type of Transaction                       | Amount of Transactions   |
|--------------------------------|---|--------------------------|
| Tarlac Power Corporation (TPC) | Purchase of electric energy               | 63,072,844 <sup>11</sup> |
| Meka Corp.                     | Purchase of Supplies                      | 1,074,643                |
|                                | Lease of lot and transportation equipment | 4,662,673                |
| ETM Inc..                      | Purchase of Supplies                      | -                        |
|                                | Lease of lot and transportation equipment | 4,115,141                |

There is no outstanding balance on the above transactions as of 31 May 2024.

<sup>10</sup> The amount of transactions presented herein are based on the amount billed by related parties as of 31 May 2024 and may not include purchases and/or rental fees as of and for the interim period ended 31 May 2024 that were not yet billed as of report date.

<sup>11</sup> Amount includes power bills from January to March 2024.

The related party transactions as of and for the year ended 31 December 2023 were reflected in Note 22 of the related Audited Financial Statements<sup>12</sup>, whereas the balances as of and for the interim period ended 31 March 2024 were presented under Note 21 of the Unaudited Interim Condensed Financial Statements<sup>13</sup>.

#### **4. MARKET PRICE OF AND DIVIDENDS ON ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS**

##### **A. Market Price of and Dividends on Issuer's Common Equity and Related Stockholders Matters**

###### **(1) Market Information**

###### **(a) Principal Market**

The shares of the Company are not traded on any stock exchange.

###### **(2) Holders**

As of 31 May 2024, the Company has a total of Five Million Seven Hundred Fifty Thousand (5,750,000) issued and outstanding common shares divided among its forty-nine (49) stockholders.

Below are the top twenty (20) stockholders of the Company's common shares as of 31 May 2024:

|     | <b>Name of Stockholder</b>   | <b>No. of Shares Held</b> | <b>% to Total Outstanding Shares</b> |
|-----|------------------------------|---------------------------|--------------------------------------|
| 1.  | Vitus M. Romero              | 582,600                   | 10.13%                               |
| 2.  | Maria Veronica M. Romero     | 582,600                   | 10.13%                               |
| 3.  | Ana Cecilia R. San Pascual   | 580,000                   | 10.09%                               |
| 4.  | Dagupan Electric Corporation | 400,000                   | 6.96%                                |
| 5.  | J-Ten Equities, Inc.         | 400,000                   | 6.96%                                |
| 6.  | ABWR888 Holdings             | 380,000                   | 6.61%                                |
| 7.  | Mavwin Properties, Inc.      | 300,000                   | 5.22%                                |
| 8.  | Rodolfo Vivencio K. Romero   | 290,000                   | 5.04%                                |
| 9.  | Frances Bernadette K. Romero | 290,000                   | 5.04%                                |
| 10. | New Move Realty, Inc.        | 200,000                   | 3.48%                                |
| 11. | Anna Marie M. Duldulao       | 166,866                   | 2.90%                                |
| 12. | Aileen M. Zurbano            | 166,667                   | 2.90%                                |
| 13. | Anne M. Lacsamana            | 166,667                   | 2.90%                                |
| 14. | RDGuzman Inc.                | 160,000                   | 2.78%                                |
| 15. | Alejandro Emilio B. Romero   | 139,850                   | 2.43%                                |
| 16. | Paul Martin B. Romero        | 139,850                   | 2.43%                                |
| 17. | Marga Isabel B. Romero       | 139,850                   | 2.43%                                |
| 18. | Angela Marie B. Romero       | 139,850                   | 2.43%                                |

<sup>12</sup> See attached Annex "A" of SEC Form 20-IS

<sup>13</sup> Attached in this Management Report as Annex I-1

|     |   |        |       |
|-----|---|--------|-------|
| 19. | EDM Construction and General Services Corp. | 65,000 | 1.13% |
| 20. | Anna Bianca R. Morales                      | 50,000 | 0.87% |

### (3) Dividends

On 18 September 2020, the Company adopted a dividend policy pursuant to which stockholders may be entitled to receive, upon declaration by the Company's Board of Directors, dividends equivalent to approximately thirty to forty percent (30-40%) of the prior year's net income after tax, primarily in cash, based on the Company's net income after tax, subject to the availability of the unrestricted retained earnings and except: (i) when justified by definite corporate expansion projects or programs approved by the Board of Directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation such as when there is a need for special reserve for probable contingencies.

However, the Board of Directors, in its discretion, may decide to declare dividends to be payable in properties or shares.

The Company will conduct a periodic review of the available unrestricted balance of retained earnings for purposes of earmarking surplus profit for future capital expenditures or for distributing the same as special cash or stock dividends.

The Board of Directors may, at any time, modify the dividend policy or declare special dividends, depending on capital expenditure plans and/or any terms of financing facilities entered into to fund current and future operations and projects.

Under the Revised Corporation Code, the Company may not make any distribution of dividends other than out of its unrestricted retained earnings.

The Board of Directors will review the amount of dividends periodically in light of the following factors:

1. The Company's earnings, cash flow, return on equity and retained earnings;
2. The Company's results and financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;
3. The Company's projected levels of capital expenditures and other investment programs;
4. Restrictions on payments of dividends that may be imposed on it by any future financing arrangements and current or prospective debt service requirements; and
5. Such other factors as the Board of Directors deems appropriate.

The declaration of dividends shall also take into account the need to maintain a

level of capitalization that is commercially sound and sufficient to ensure that the Company can operate on a stand-alone basis.

#### (a) Dividends Declared

On 17 May 2024, the BOD approved the declaration of cash dividends of ₱13.34 per share or in the total amount of Seventy-Six Million Seven Hundred Five Thousand Pesos (₱76,705,000.00) from the unrestricted retained earnings of the Company as of 31 December 2023 to all its stockholders of record as of 31 May 2024.

The BOD likewise authorized the distribution of the cash dividends on or before 01 August 2024.

The said declaration of cash dividends was reported by TEI under SEC Form 17-C. A copy of the report is attached herewith as *Annex "I-5"*.

Also, the BOD approved the declaration of cash dividends in 2023 and 2022 as shown below:

| <b>Date of Declaration</b> | <b>Record Date</b> | <b>Dividend per Share</b> | <b>Total</b>          |
|----------------------------|--------------------|---------------------------|-----------------------|
| <b>2023</b>                |                    |                           |                       |
| 15 September 2023          | 01 December 2023   | ₱14.08                    | <b>₱80,960,000.00</b> |
| <b>2022</b>                |                    |                           |                       |
| 21 October 2022            | 15 November 2022   | ₱9.79                     | <b>₱56,292,500.00</b> |

The cash dividends declared in 2023 has been fully paid as of 31 December 2023.

#### (b) Appropriated Retained Earnings

On 15 December 2023, TEI's BOD approved the reversal of the appropriations for 2023 projects amounting to Three Hundred Fifty Million Pesos (P350,000,000.00), and likewise approved the appropriations of Two Hundred Eighty Million Pesos (P280,000,000.00) for the following 2024 projects:

|   | <b>Project Name</b>               | <b>Amount</b>          |
|---|-----------------------------------|------------------------|
| 1 | Maliwalo Substation               | ₱80,000,000.00         |
| 2 | Ayala Substation                  | 50,000,000.00          |
| 3 | Substation Network Infrastructure | 50,000,000.00          |
| 4 | Annual Requirements               | 100,000,000.00         |
|   | <b>Total</b>                      | <b>₱280,000,000.00</b> |

#### (4) Sales of Unregistered or Exempt Securities

There are no recent sales of unregistered or exempt securities from 2020 to 31 May 2024.

## **B. Description of the Issuer's Securities**

On 07 July 2020, the SEC approved TEI's application for reclassification of its shares from two (2) classes of common shares to a single class with a par value of One Hundred Pesos (₱100.00) each and the inclusion of additional restrictions to the transfer of shares in the Company.

The Company has no debt securities, stock options, securities subject to redemption or call, warrants and other securities other than the common shares described above.

## **5. CORPORATE GOVERNANCE**

Following the Company's adoption of its Corporate Governance Manual (the "Manual") on 16 January 2021, the Company elected its Independent Director, Ms. Miriam S. Galvez.

As of 31 May 2024, the Company has established its Audit Committee, Corporate Governance Committee and Board Risk Oversight Committees.

The members of the Audit Committee are Ms. Miriam S. Galvez, who is also the Chairman of the Committee, Mr. Vivencio M. Romero, Jr., and Ms. Maria Victoria R. San Pascual.

The members of the Corporate Governance Committee are Mr. Vitus M. Romero, who is also the Chairman of the Committee, Mr. Vivencio M. Romero, Jr. and Mr. Venus M. Romero.

The members of the Board Risk Oversight Committee are Mr. Venus M. Romero, who is also the Chairman of the Committee, Mr. Vitus M. Romero and Ms. Miriam S. Galvez.

### **Evaluation System**

The Company has adopted the following measures to ensure and determine the Board of Directors and top-level management's compliance with the Manual:

1. All directors, executive officers, and department heads are tasked with ensuring the thorough dissemination of the Manual to all employees, potential investors, and all other stakeholders of the Company.
2. The Company shall post the Manual on its website, which shall be immediately accessible to all stakeholders at any time of day.
3. The Board shall conduct and accomplish an annual self-assessment of its performance, including the performance of its Chairman, committee chairmen, and individual members, using the criteria set by the Company's Corporate Governance Committee. Moreover, each committee shall regularly report to the Board all significant developments or matters that are within its responsibilities.
4. The Board shall develop a rating system to measure the performance of the Board and Management in accordance with the criteria provided in the Manual and other rules and regulations on good corporate governance.

5. A director shall, before his assumption of duty, be required to attend trainings and seminars on corporate governance to be conducted by a recognized and reputable training provider.

### **Compliance Measures**

1. The Compliance Officer shall be specifically tasked with the responsibility of ensuring compliance with the Manual of Good Corporate Governance, particularly:
  - a. Ensuring proper on boarding of new directors (*i.e.*, orientation on the Corporation's business, charter, articles of incorporation and by-laws, among others);
  - b. Monitoring, reviewing, and evaluating compliance by the Company, its officers and directors with the relevant laws, rules and regulations and all governance issuances of regulatory agencies;
  - c. Reporting violations of the aforementioned rules to the Board and recommending the imposition of appropriate disciplinary action;
  - d. Ensuring the integrity and accuracy of all documentary submissions to regulators;
  - e. Appearing before the SEC when summoned in relation to compliance with the Code;
  - f. Collaborating with other departments to properly address compliance issues which may be subject to investigation;
  - g. Identifying possible areas of compliance issues and works towards the resolution of the same;
  - h. Ensuring the attendance of board members and key officers to relevant trainings; and
  - i. Performing such other duties and responsibilities as may be provided by the SEC.
2. In cases of non-compliance with the Manual, Compliance Officer shall, after proper investigation, notice and hearing, determine and recommend to the Board, the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent repetition of the violation.
3. The Board shall at all times adopt its policies on disclosure and transparency, communication, and accountability in conducting the affairs of the Company.

### **Deviation from Corporate Governance Practices**

As of 31 May 2024, the following policies and procedures were approved by the BOD:

1. Board Diversity Policy
2. Board Assessment Policies and Procedures
3. Codes of Business Conduct and Ethics
4. Corporate Disclosure Policies and Procedures
5. Related Party Transaction Policy
6. Anti-Bribery and Anti-Corruption Policy
7. Whistleblowing Policy
8. Alternative Dispute Resolution Policy

The Company is still in the process of establishing other policies and procedures required under its Corporate Governance Manual, nonetheless, there are no major deviations noted, except as those reported in its 2022 Annual Corporate Governance

Report attached herewith as *Annex "I-6"*.

### **Improvement of Corporate Governance Practices**

The Company is taking further steps to enhance adherence to principles and practices of corporate governance. To this end, and in consonance with the Company's desire to constantly improve its corporate governance standards to inspire public confidence in the Company, the Manual is mandated to be under constant review, with three (3) committees, namely, the Corporate Governance Committee, Board Risk and Oversight Committee, and Audit Committee, being required to review and submit amendments to the Manual at least annually.

The Company's directors and officers continue to undertake regular training and seminars in order to apprise themselves of the updates and changes in governance. The details of the said seminars and other efforts undertaken by the Company to ensure that its directors and officers are well-informed and that all of its government practices are up to date will be reflected in the Company's 2022 Annual Corporate Governance Report.

### **Approval and Re-Appointment of External Auditor**

1. The Audit Committee is tasked to recommend the appointment and/or re-appointment of the external auditor to the Board of Directors.
2. In a meeting called for this specific purpose, the Board will assess the performance of the external auditor (in the case of re-appointment) and track record (in the case of first-time engagement with an external auditor).
3. Subsequent to Board approval, the decision to select a specific external auditor will be subject to ratification by the shareholders in a shareholder' meeting. This ratification emphasizes that the external auditor is accountable to the shareholders of the company and not just to the management.
4. The audit fee shall then be discussed with the external auditor and will be indicated in a properly-executed audit engagement letter which also sets forth the scope of the audit, the responsibilities of TEI management and that of the external auditor, among others.
5. In case of non-audit services to be rendered by the external auditor, the Audit Committee shall first determine whether there is a significant impairment of the former's independence and objectivity, prior to recommending such non-audit service to the Board.
6. P&A Grant Thornton currently acts as the Company's independent or external auditor.

### **Assessment of the External Auditor's Integrity and Independence**

1. The Audit Committee has the responsibility of assessing the integrity and independence of external auditors, taking into consideration, the requirements of the Philippine Code of Ethics for Professional Accountants, and other regulatory requirements that may be promulgated in relation to ethical aspects.
2. This assessment of external auditor's integrity and independence on the part of the Audit Committee shall be conducted on an annual basis.

### **Assessment of the External Auditor's Engagement Performance**

1. The Audit Committee is tasked to perform an assessment of the performance of the external auditor in carrying out the annual audit of TEI's financial statements.
2. In assessing external auditor's performance, the Audit Committee shall be guided by the following questions. The external auditor shall be given a rating from 1 to 5, with 1 being the Very Poor and 5 being Very Satisfactory:
  - a. Was the lead audit engagement partner accessible to the audit committee and TEI management?
  - b. Did the lead audit engagement partner devote sufficient attention and leadership to the audit, including supervision of audit staff?
  - c. Did the audit engagement team possess sufficient understanding of TEI's business and industry and have access to their audit firm's specialized expertise during the audit (e.g. PFRS 15 on revenue; PFRS 16 on leases)?
  - d. Was the audit scope, audit man-hours, and cost of the audit reasonable and sufficient for the size, complexity, and risks of the TEI?
  - e. Was the audit scope, audit man-hours, and cost of the audit reasonable and sufficient for the size, complexity, and risks of the TEI?
  - f. Did the lead audit engagement partner explain accounting and auditing issues in an understandable manner?
  - g. Were the results of the audit explained to the Audit Committee and/or management in an audit exit conference?
  - h. Was the audit completed on time?