



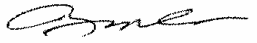

EEI CORPORATION

FRAUD POLICY AND PROCEDURES

CODE NO.	REF. MEMO#	REV. NO.	TITLE	SHEETS (INCLUDING COVER)
CPM-O	LRA-M-002-06	0	FRAUD POLICY AND PROCEDURES	9

REVISION HISTORY AND HIGHLIGHTS

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EFFECTIVITY DATE: JUNE 01, 2006	
PREPARED BY/DATE	APPROVALS/DATE
 LRA	 RJLC / GSH / FGV / CMI
INTERNAL AUDIT	PRES. & CEO/ SVP-CFO/ SVP-LEGAL/ VP & GM-CD



## FRAUD POLICY AND PROCEDURES

REF. MEMO#: LRA-M-002-06

PREP'D BY: LR AVILA

DATE PREP'D: MAY 11, 2006

APPR'D BY: RJLC / GSH / BV / CMI

DATE APP'D: MAY 18, 2006

### 1. PURPOSE:

The corporate fraud policy is established to:

- 1.1 Facilitate the development of controls that will aid in the detection and prevention of fraud against EEI Corporation and its subsidiaries;
- 1.2 Protect the revenue, property, reputation and other assets of EEI and its subsidiaries;
- 1.3 Emphasize clearly the need for accurate financial reporting;
- 1.4 Promote consistent organizational behavior by providing clear guidelines and assigning responsibility for the development of controls and conduct of investigations and handlings of fraud;
- 1.5 Ensure that prompt and effective action is taken to minimize the risk of any subsequent losses, reduce any adverse operational effects, improve the likelihood and scale of recoveries, and make a clear statement to employees and others that EEI and its subsidiaries are not a soft target for attempted fraud.
- 1.6 Complement the Company's Code of Business Conduct and Ethics and Policy on Conflict of Interest.
- 1.7 Serve as a supplemental aide to the Audit Committee and the Personnel Evaluation and Review Committee (PERC) in the discharge of their duties and responsibilities, particularly in helping Management strengthen the system of accountability and maintain the culture of discipline within the organization.

### 2. ACTIONS CONSTITUTING FRAUD

Fraud is defined as an intentional and willful act of deception and/or misrepresentation to gain an unauthorized unjust advantage or benefit or to deprive the company a benefit. It is the deliberate concealment of material fact for the purpose of inducing another person to do or to refrain from doing something.

All fraudulent acts are included under this policy. Such acts include but are not limited to, an act, irregularity or activity that is unethical, dishonest, improper or illegal such as:

- a. manipulation, falsification, forgery, concealment or alteration of information and/or documents/records or any paper or electronic documents (checks, vouchers, invoices, promissory notes, official or provisional receipts, time sheets, 201 files, purchase orders, budgets, contracts, etc.).
- b. destruction, removal, and/or inappropriate use of records, computer systems, materials, furniture and fixtures, equipment, tools and other assets of the company.
- c. theft or misappropriation of company cash, securities, equipment, materials, supplies, tools, and other assets or intellectual property.
- d. profiteering as a result of inside knowledge of company activities.
- e. disclosing confidential and proprietary information to outside parties (e.g. giving information on documents regarding bids, details of company assets, manpower, cost reports, etc.).
- f. accepting or seeking anything of value from contractors, vendors, or persons providing services/materials to the Company beyond the limit allowed under the policy on conflict of interest and Code of Ethics of the Company.
- g. authorizing or receiving payments for goods not received or services not performed.
- h. authorizing or receiving payments for hours not worked.
- i. impropriety with respect to reporting financial transactions or project cost reports.



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- j. any other fraudulent acts mentioned in the company's Code of Business Conduct and Ethics and Policy on Conflict of Interest.

### 3. OTHER IRREGULARITIES

Irregularities concerning an employee's moral, ethical, or behavioral conduct that are not fraudulent in nature should be resolved by departmental management or HRD.

If there is any question as to whether an action constitutes fraud, the relevant manager/executive should contact Legal Department or Internal Audit for guidance.

### 4. SCOPE OF POLICY

This policy applies to any irregularity or suspected irregularity, involving directors, officers, and employees (full-time, part-time, seasonal & other temporary employees) as well as shareholders, consultants, vendors, contractors, customers, and/or any other parties with a business relationship with EEL Corporation and its subsidiaries.

Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the company. The drive for performance will not be allowed to override probity and accountability.

### 5. GENERAL POLICY AND RESPONSIBILITY

- a. Fraud of any kind is strictly forbidden. Employees at all levels are accountable for setting the appropriate tone of intolerance for fraud by complying with all laws, rules and regulations, professional codes of conduct and policies.
- b. Any irregularity that is detected or suspected must be promptly and swiftly investigated, reported and subjected to the appropriate discipline and possible criminal prosecution and/or civil action.
- c. Each Division/Group/Project Manager is responsible for ensuring compliance with established systems of internal controls. They should also be responsible to make sure that the policies within their department/group/team provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Each member of the Management Team should be familiar with all types of improprieties that might occur within his or her area of responsibility and be alert for any indications of such conduct.
- d. Each Unit or Division Head are responsible for the communication and implementation of internal controls and of this policy in their work area and ensuring their employees are familiar with all appropriate rules and procedures. To this end, the Unit or Division Head should ensure that all their employees receive appropriate orientation trainings, which shall include this fraud policy and the internal control system relevant to their employee's responsibilities. Moreover, they and Administration Group are jointly responsible in requiring all their employees to sign and observe the company's Code of Business Conduct and Ethics, Policy on Conflict of Interest, as well as this fraud policy.
- e. Any irregularity that is detected or suspected must be reported immediately to the Audit Committee or PERC Chairman. Failure to report known evidence of fraud will be subject to the appropriate discipline. However, individuals who knowingly make false allegations of fraud will be subject to the appropriate discipline. (Please refer to Sec. 10 of this policy for details of reporting responsibilities.)
- f. Appropriate action shall be taken to prevent further losses and to recover assets lost as a result of an act of fraud. Full recovery will constitute the value of benefits gained by a perpetrator of fraud, and if appropriate, the cost of investigation, recovery, or other costs. All reasonable means, legally available, may be sought to recover losses.



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- g. Employees found to have committed and/or participated in fraudulent activities, or any employee who hindered or obstructed the reporting of a fraud inquiry will be subject to disciplinary action and/or discharge.

Employees discharged under this policy shall not be re-employed by EEI and any of its subsidiaries.

- h. Any party, engaged in any way in activities of EEI or any of its subsidiaries, found to have committed and/or participated in fraudulent activities would be subject to legal and/or Administrative proceedings the company would deem appropriate to pursue.
- i. Upon conclusion of the investigation, the results will be reported to the President and to the entire Audit Committee for appropriate action on the matter. Quarterly updates of fraud will be provided to the entire Audit Committee.

### 6. INVESTIGATION RESPONSIBILITIES

- a. The Internal Audit and the Legal Department have the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. If the investigation substantiates that fraudulent activities have occurred, the Internal Audit or Legal Department will issue reports to appropriate designated personnel and, if appropriate, to the Board of Directors through the Audit Committee.
- b. Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with the Audit Committee, Legal, Senior Management, and PERC, as will final decisions on disposition of the case.
- c. If the person implicated reports to any of the Committee member directly, the said member should inhibit himself.

### 7. CONFIDENTIALITY

All information received will be thoroughly investigated in accordance with the procedures detailed in this policy so as to avoid incorrect accusations. Any and all information shall be treated in an extremely confidential manner. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know such results in order to perform their duties and responsibilities. This is important to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect the company from potential civil liability.

### 8. SAFE DISCLOSURE PROTECTION

- a. Personnel who provide information, testify or otherwise participate in investigation regarding any conduct, which he reasonably believes constitutes a violation of Corporate Fraud Policy and Code of Ethics, cannot be discharged/dismissed, suspended, transferred to far-flung projects, demoted or otherwise discriminated without any justifiable reason. If proof of unjustified discharge or dismissal is evident, the initiation of disciplinary action, up to and including dismissal, will take place. A proper remedy for the person harmed (e.g. reinstatement, re-assignment, etc.) will be applied. The same rights may apply to a falsely accused person.
- b. If an allegation is made in good faith but it is not confirmed by the investigation, no action will be taken against the originator. If, however, individuals make malicious allegations, action may be considered against the individual making the allegation.



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### 9. AUTHORIZATION FOR INVESTIGATING SUSPECTED FRAUDS

- a. Members of the Investigation Team will have
  - Free and unrestricted access to all company records and premises, whether owned or rented that may be relevant and necessary in pursuing the investigation, and
  - The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of their investigation.
- b. No attempt should be made to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act except by those empowered to do so as per Sec. 6 of this policy.

### 10. REPORTING AND INVESTIGATING PROCEDURES

#### • All Employees –

Any employee who has knowledge of an occurrence of fraudulent conduct, or has reason to suspect that fraud has occurred, shall immediately notify his/her immediate superior. If the employee has reason to believe that the employee's immediate superior may be involved, the employee shall immediately report it directly to their higher in line and/or the Vice President concerned.

#### • Managers/Group Managers/Officers/Directors

Upon notification from an employee of suspected fraud, or if the manager, group manager, AVP, or VP, has reason to suspect that a fraud has occurred, the manager, group manager, AVP, or VP shall immediately notify the Audit Committee or PERC Chairman through the Head of Internal Audit Group.

#### • Audit Committee or PERC Chairman

- a. Upon notification or discovery of a suspected fraud, the Audit Committee or PERC Chairman will determine who will be assigned the responsibility for the investigation. Responsibility may be assigned to the Internal Audit, Legal Department or other affected areas both internal and external as deemed appropriate.
- b. If the person implicated reports to the Audit or PERC Committee member directly, the said member should inhibit himself.

#### • Internal Audit or Legal Department

##### a. Head of Internal Audit or Legal Department

Upon receipt of instruction from the Chairman of the Audit Committee or PERC to do a fraud investigation, the Head of Internal Audit or Legal Department will appoint a member of his staff to oversee the investigation. Such Person In-Charge of Investigation

##### 1) Will initiate a Diary of Events to record the progress of the investigation

- a) All working papers/paperwork and all documentary evidence relating to the potential/actual fraud will be retained on file and access thereto shall be limited only to those authorized by the Head of Internal Audit or Legal. Original documentation will not be marked, photocopies of all documentations will be made and the originals placed in a safe or any secured/locked



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cabinet/drawer. If evidence consists of several items for example, many documents, each one should be tagged with a reference number corresponding to the written record.

- b) Accurate records of any interviews with individuals will be maintained. Records must state:
- Location of interview
  - Time the interview was conducted (start and end)
  - Full names and address of persons interviewed
- c) If a witness to the event is prepared to give a written statement, it is best practice for any experienced member of staff preferably from Legal to take a chronological record using the witness own words.
- d) It is important that all meetings, interviews, removal/taking possession of evidence, telephone discussions, etc. are recorded. A more comprehensive note of any such event should be maintained in the form of a detailed working paper which should be written up either during, or as soon after the relevant event as possible, and signed dated and timed by the responsible individual.
- e) Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid incorrect accusations or alerting suspected individuals that an audit is underway and also to avoid making statements which could provide a basis for a suit for false accusation or other offenses. Accordingly, the reporting individual should:
- Not contact the suspected individual to determine facts or demand restitution.
  - Not discuss any facts, suspicions or allegations associated with the case with anyone, unless specifically directed to do so by the Offices of Internal Audit, Legal Advisors, or by the Police.
- f) All inquiries from the suspected individual, his representative or his attorney shall be directed to legal advisors. Proper response to such an inquiry should be, "I'm not at liberty to discuss this matter." Under no circumstances should there be any reference to "what you did," "the crime," "the fraud", "the forgery," "the misappropriation," etc. Comments such as "if you do not tell me the truth you will get the sack" will render any evidence obtained inadmissible.
- If the employee refuses to answer questions about his actions as an employee, it shall be considered as a gross misconduct/dismissal offense. If the employee knowing the criminal law refuses to answer on the grounds that he might incriminate himself, that is his right and if he asks that question, he should be told so. He is still dismissed if there is substantial evidence of guilt. If the question of an interview under caution arises then by that stage, the police must have been informed and given the option to be involved.
- g) During the investigation, the suspected individual may seek the assistance of counsel if he so desires.
- 2) Will do internal investigation to determine the facts and what disciplinary action is needed, what can be done to recover any loss and what may need to be done to improve internal control to prevent the event happening again.
- a) The services of the police or National Bureau of Investigation (NBI) may be hired to investigate alleged fraud and use the mechanisms of the law to the fullest to prosecute individuals or organizations engaged in fraud whenever the police or NBI identify sufficient evidence to support prosecution.



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b) Disciplinary actions to erring individual.

- Misconduct involving dishonesty (regardless of amount) – Dismissal or Blacklisting (in the case of supplier or subcontractor)
- Negligence or errors that caused the opportunity for fraud to happen – Suspension to Dismissal

If an investigation results in a recommendation to terminate an individual, the recommendation will be reviewed for approval by Legal Department and, if necessary, by outside counsel, before any such action is taken. The Legal Department and the Audit Committee do not have the authority to terminate an employee. The decision to terminate an employee is made by the employee's management. Should the Audit Committee or Legal Department believe the Management decision inappropriate for the facts presented, the facts will be presented to the Personnel Evaluation and Review Committee for a decision.

Before termination can be legally effected, two written notices (described below) are required:

- Notice which apprises the employee of the particular acts or omissions for which his dismissal is sought
- Notice informing the employee of the employer's decision to dismiss him after due investigation

c) A written report addressed to the Audit Committee, copy furnished Senior Management, will be issued at the conclusion of the investigation. The findings, conclusions, recommendations and corrective action to be taken will be documented. Any other party seeking such a report shall obtain the written consent of the President.

d) Recovering and Preventing Further Loss:

- Appropriate Unit Head, in coordination with Legal, shall plan the timing of suspension to prevent the suspect from destroying or removing evidence. The records must be adequately secured until the Investigating Team obtains the records to begin the investigation.
- Suspect shall be approached unannounced. They should be supervised at all times before leaving the company's premises. They should be allowed to collect personal property under supervision but should not be able to remove any property belonging to the company. Any security passes and keys to premises, offices, and furniture should be returned.
- Where an employee is suspended in these circumstances, the unit head concerned will immediately make the necessary arrangements to remove access to all company's computing facilities and to prevent the theft, alteration, or destruction of relevant records.

Such actions include, but are not necessarily limited to removing the records or assets and placing them in a secure location, limiting access to the location where the records or assets currently exist, and preventing the individual suspected of committing the fraud from having access to the records or assets.

- Person In Charge of Recovering Loss
  - Internal Audit will ensure that the amount of any loss will be quantified by the appropriate Unit Head and the Chief Financial Officer and repayment of losses will be sought in all cases.
  - Where the loss is substantial, Legal advice will be obtained immediately about the need to freeze the suspect's assets through the court, pending conclusion of the investigation. Legal advice will also be obtained about prospects for recovering losses through the civil



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court, where the perpetrator refuses repayment. The company would normally expect to recover costs in addition to losses.

- > The appropriate Unit Head will ensure that prompt action is taken to recover insured losses by notifying the Treasury Head and submitting the appropriate claims as quickly as possible.

### 11. ADMINISTRATION

The Head of Internal Audit is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as needed to ensure its continued relevance.





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### ACKNOWLEDGMENT OF FRAUD POLICY

I have read the company's Fraud Policy. I understand that the Board of Directors and Management will not tolerate fraudulent or dishonest activities of any kind and that I am not to engage in acts of fraud or dishonesty while employed at EEI or any of its subsidiaries.

Dated this \_\_\_\_\_ day of \_\_\_\_\_.

\_\_\_\_\_  
Employee

\_\_\_\_\_  
Witness