

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATIONS CODE (SRC)  
AND SRC RULE 17.1

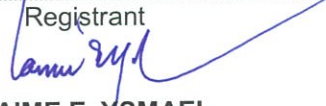
1. July 31, 2014  
Date of Report (Date of earliest event reported)
2. 152747 3. 000-153-790-000  
SEC Identification Number BIR Tax Identification Number
4. AYALA LAND, INC.  
Exact Name of registrant as specified in its charter
5. MAKATI CITY, PHILIPPINES 6. [REDACTED] (SEC Use Only)  
Province, country or other jurisdiction of Industry Classification Code  
incorporation
7. 30/F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226  
Address of principal office Postal code
8. (632) 750-6974  
Registrant's telephone number, including area code
9. Not Applicable  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

**As of June 30, 2013**

| Title of Each Class      | Number of Shares of Common Stock<br>Outstanding | Amount of Debt<br>Outstanding  |
|--------------------------|-------------------------------------------------|--------------------------------|
| <b>COMMON SHARES</b>     | <b>14,172,673,524</b>                           |                                |
| <b>VOTING PREFERRED*</b> | <b>13,066,494,759</b>                           | <b>P 22.50 Billion (bonds)</b> |

Indicate the item numbers reported herein : Item 9. Other Events

Date : July 31, 2014

AYALA LAND, INC.  
Registrant  
  
**JAIME E. YSMAEL**  
Senior Vice-President, Chief Finance  
Officer and Chief Compliance Officer

\*Unregistered



SEC Reg. No. 152747

31 July 2014

**Securities and Exchange Commission**  
SEC Building, Mandaluyong City

Attention: Hon. Justina F. Callangan  
*Director, Corporation and Finance Department*

**Philippine Stock Exchange, Inc.**  
3<sup>rd</sup> Floor, Tower One and Exchange Plaza  
Ayala Triangle, Ayala Ave., Makati City

Attention: Ms. Janet A. Encarnacion  
*Head, Disclosure Department*

**Philippine Dealing and Exchange Corporation**  
37<sup>th</sup> Floor, Tower 1, The Enterprise Center  
6766 Ayala Ave cor. Paseo de Roxas, Makati City

Attention: Ms. Ma. Concepcion Magdaraog  
*Head, Issuer Compliance and Disclosure Department*

Gentlemen:

Please find attached the Revised Manual of Corporate Governance of Ayala Land, Inc. in compliance with the Securities and Exchange Commission Memorandum Circular No. 9, Series 2014.

Thank you.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Jaime E. Ysmael', with a long, sweeping flourish extending to the right.

**Jaime E. Ysmael**  
*Compliance Officer*



**REVISED MANUAL  
OF  
CORPORATE GOVERNANCE**

## ARTICLE I

### PREAMBLE

**Corporate governance** refers to “the framework of rules, systems and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates”.<sup>1</sup> It encompasses the entirety of the legal and factual regulatory framework for managing and supervising a Corporation<sup>2</sup>. The primary goal of corporate governance is to create and sustain increased value in the Corporation for all of its stockholders and other stakeholders. To achieve this goal, it is necessary – among other things – to clearly set forth the principles of appropriate supervision and good management, and thereby lay the groundwork for development and implementation of value-creating activities. Moreover, it is as important that these agreed principles of governance are made transparent to all stockholders concerned, thereby safeguarding stockholders’ and other stakeholders’ rights as well as promoting stockholders’ and other stakeholders’ participation in the corporate governance process.

The framework for Corporate Governance is not drawn from any single document. The Philippine Corporation Code lays down the basic legal framework for corporate governance of every Philippine corporation. It is supplemented by: (1) the Securities Regulation Code (Republic Act No. 8799), (2) the implementing rules and regulations issued by the Securities and Exchange Commission (“SEC” or “Commission”), (3) the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002), (4) the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009), and the Amendment to the Revised Code of Corporate Governance (SEC Memorandum Circular No. 9, Series of 2014). All the terms used herein are used with the meanings assigned to them by said laws and implementing rules and regulations.

The machinery for corporate governance of Ayala Land, Inc. (“Ayala Land, Inc.” or the “Corporation”) is principally contained in the Corporation’s Articles of Incorporation and By-Laws and their amendments. These constitutive documents lay down, among others, the basic structure of governance, minimum qualifications of directors, and the principal duties of the Board of Directors and officers of the Corporation. The function of this Manual of Corporate Governance is to supplement and complement the Corporation’s Articles and By-Laws by setting forth principles of good and transparent governance.

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<sup>1</sup> Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2009, as amended by SEC Memorandum Circular No. 9, series of 2014.

<sup>2</sup> Berlin Initiative Group Code of Corporate Governance

The Board of Directors, Management, Officers and employees of Ayala Land, Inc. hereby commit themselves to the principles and best practices of governance contained in this Manual as a guide in the attainment of its corporate goals. The Corporation shall make a continuing effort to create awareness of good corporate governance within the organization.<sup>3</sup> At the same time, the entire organization hereby declares its continuing commitment to the Vision statement and corporate values of Ayala Land, Inc.

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<sup>3</sup>SEC Model

## **Vision and Mission**

### **Enhancing Land and Enriching Lives, for More People**

Our vision is to enhance our standing and reputation as the Philippines' leading real estate developer, and to be a strong partner in nation-building. By developing integrated, masterplanned and sustainable mixed-use communities in vibrant growth centers all over the country, we strive to continually elevate the quality of life for all of our customers.

We shall be a responsible corporate citizen, and act with integrity, foresight and prudence. We shall empower our employees to deliver products that exceed our customers' expectations and build long-term value for our shareholders.

## ARTICLE II

### GOVERNANCE

#### 1. The Board of Directors

The Board of Directors is the supreme authority in matters of governance and managing the regular and ordinary business of the Corporation. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgment. It shall be the Board's responsibility to promote and adhere to the principles and best practices of corporate governance and to foster the long-term success of the Corporation and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders.

##### 1.1 **Composition**

The Board of Directors shall have nine (9) members, more than 50% of whom shall be independent and/or non-executive directors, who shall be elected by the Corporation's stockholders' entitled to vote at the annual meeting, and shall hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the Corporation.

The Board has to be composed in such a way that it possesses, as a group, the necessary knowledge, skills and experience required to properly perform its duties.

The Board shall encourage the selection of a mix of competent directors, each of whom can add value and contribute independent judgment in the formulation of sound corporate strategies and policies. In the selection of candidates for the Board, the objectives set by the Board for its composition are to be seriously considered, as well as the required knowledge, abilities and experience needed to successfully manage the Corporation. Careful attention must be given to ensure that there is independence and diversity, and appropriate representation of women in the Board, subject to the possession of the knowledge, abilities and experience determined by the Board as necessary for the Board to properly perform its functions.

The Board shall regularly review its composition, taking into account the evolving requirements of the Corporation, and best practices in corporate governance.

### **.1.2 Qualifications**

A director of Ayala Land, Inc. shall have the following qualifications<sup>4</sup>:

- a) Ownership of at least one (1) share of the capital stock of the Corporation;
- b) A college degree or its equivalent or adequate competence and understanding of the fundamentals of the real estate industry or sufficient experience and competence in managing a business to substitute for such formal education;
- c) Membership in good standing in relevant industry, and membership in business or professional organizations.<sup>5</sup>; and
- d) Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions.

### **1.3 Disqualifications**

The following persons are disqualified from being a director of the Corporation:

- a) Any person who has been finally convicted by a competent judicial or administrative body of the following : (i) any crime involving the purchase or sale of securities, e.g. proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan;(ii) any crime arising out of the person's conduct as an underwriter, broker, dealer, investment Corporation, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, floor broker; and (iii) any crime arising out of his relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- b) Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the Commission or any court or other administrative body of competent jurisdiction from; (i) acting as an underwriter, broker, dealer, investment adviser, principal

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<sup>4</sup> Except for item (b) which is a legal requirement, all other qualifications are derived from the SEC Model

<sup>5</sup> Revised CG Code, Article 3.D) (iii)

distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or a floor broker; (ii) acting as a director or officer of a bank, quasi-bank, trust company, investment house, investment company or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the Commission or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code, Securities Regulation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or under any rule or regulation promulgated by the Commission or Bangko Sentral ng Pilipinas, or otherwise restrained to engage in any activity involving securities and banking. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from association with a member or participant of the organization;

- c) Any person finally convicted judicially of an offense involving moral turpitude or fraudulent acts or transgressions;
- d) Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code of the Philippines, or any other law administered by the SEC, or any rule, regulation or order of the Commission or the Bangko Sentral ng Pilipinas;
- e) Any person judicially declared to be insolvent;
- f) Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct listed in the foregoing paragraphs; and
- g) Any person convicted by final and executory judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the

Corporation Code, committed within five (5) years prior to the date of his election or appointment.<sup>6</sup>

- h) No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged<sup>7</sup>
  - i. If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any corporation (other than one in which the Corporation owns at least 30% of the capital stock) engaged in a business which the Board, by at least three-fourths (3/4) vote, determines to be competitive or antagonistic to that of the Corporation; or
  - ii. If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business of the Corporation, when in the judgment of the Board, by at least three-fourths (3/4) vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or
  - iii. If the Board, in the exercise of its judgment in good faith, determines by at least three-fourths (3/4) vote that he is the nominee of any person set forth in (h.i) or (h.ii).

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relations.

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<sup>6</sup> Disqualifications (a), (b) and (d) to (f) are required by the SEC Model; disqualification (c) is required by the Public Service Law.

<sup>7</sup>By-Laws, Article IV, Section 2.

- i) An independent director, after serving for nine years (including the two (2) – year cooling off period), shall be perpetually barred from being elected as such in the Corporation, without prejudice to being elected as independent director in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in the rules and regulations of the SEC.<sup>8</sup>

#### 1.4 Temporary Disqualification of Directors

The following are grounds for temporary disqualification of incumbent directors:

- a) Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.
- b) Absence or non-participation for whatever reason(s) in more than Seventy-Five Percent (75%) of all meetings, both regular and special, of the Board of Directors during his incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident.<sup>9</sup> This disqualification applies for purposes of the succeeding election.
- c) Dismissal/ termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity.
- d) Being under preventive suspension by the Corporation for any reason.
- e) Conviction that has not yet become final referred to in the grounds for disqualification of directors.

Temporary disqualification shall be at the discretion of the Board and shall require a resolution of a majority of the Board.

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<sup>8</sup> SEC Memorandum Circular No. 9, series of 2011.

<sup>9</sup> Revised CG Code, Article 3.E) 2. (ii).

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.<sup>10</sup>

### 1.5 Independent Directors

Independent directors shall hold no interests or relationships with the Corporation that may hinder their independence from the Corporation or Management or interfere with the exercise of independent judgment in carrying out the responsibilities of a director. An independent director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the corporation, management or controlling shareholder at the time of his election or appointment and/or re-election as a director. <sup>11</sup>**Independent directors may serve for a period of not more than nine (9) years.** Moreover, for purposes of compliance with the legal requirement on independent directors –

- a) Officers, executives and employees of the corporation may be elected as directors but cannot and shall not be characterized as independent directors.
- b) If a director elected or appointed as an independent director subsequently becomes an officer or employee of the Corporation, the Corporation shall forthwith cease to consider him as an independent director.
- c) If the beneficial security ownership of an independent director in the Corporation or in its related companies exceeds two percent (2%)<sup>12</sup>, the Corporation shall forthwith cease to consider him as an independent director until the beneficial security ownership of the director is reduced to two percent (2%) or lower.
- d) Independent directors are not entitled to receive options, performance shares, and bonuses except pursuant to a resolution approved by stockholders owning at least a majority of outstanding capital stock.

The Corporation shall, as appropriate, provide independent directors with technical support staff to assist them in performing their duties for such committees. Independent directors may, when necessary, also request and receive support from executives, employees or outside professionals such as

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<sup>10</sup> Revised CG Code, Article 3.I.

<sup>11</sup> Korean Code of Best Practice for Corporate Governance.

<sup>12</sup> Revised CG Code, Article 3. E) 2. (iv).

auditors, advisers and counsel to perform such duties. The Corporation shall cover the reasonable expenses of providing such support.

#### 1.6 Policy on Multiple Board Seats

**The Corporation shall** ensure that adequate time and attention is given to the fulfillment of each directors' duties. **Independent directors** shall **hold no more than** five (5) board seats in any group of publicly-listed companies **and executive directors shall hold no more than two (2) board seats in listed companies outside the Corporation's group.**

#### 1.7 Board Meetings and Quorum Requirements

- a) Members of the Board should attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by the SEC. Two-thirds (2/3) of the number of directors as fixed in the articles of incorporation shall constitute a quorum for the transaction of corporate business.
- b) The Board may, to promote transparency, require the presence of at least one (1) independent director in all of its meetings.<sup>13</sup> However, the absence of an independent director shall not affect the quorum requirement if he is duly notified of the meeting but notwithstanding such notice fails to attend.
- c) The Board shall designate the days when it shall meet, but it shall meet at least six (6) times each calendar year.
- d) At least once a year, the non-executive directors shall meet without any executives present.

#### 1.8 General Responsibility of the Board for Good Governance

- a) Compliance with the principles of good governance shall start with the Board of Directors.<sup>14</sup> It shall be the Board's responsibility to foster the long-term success

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<sup>13</sup> Revised CG Code, Article 3.1

<sup>14</sup> SEC Model.

of the Corporation and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, **its stockholders and other shareholders.**<sup>15</sup>

- b) To ensure good governance of the corporation, the Board should establish the vision and mission and strategic objectives and key policies and procedures for management of the Corporation, as well as the mechanism for monitoring and evaluating Management's performance.<sup>16</sup>
- c) To the extent set forth above, the Board of Directors shall orient all its activities towards three general guidelines:
  - i. All actions taken by the Board are subject to the principle of legal permissibility. They must therefore not infringe on the appropriate provisions of Philippine law and the Corporation's constitutive documents.
  - ii. All actions taken by the Board are subject to the principle of economic usefulness. They should accordingly contribute to increasing the value of the Company in a sustainable manner.<sup>17</sup>
  - iii. The Board should, when carrying out its duties, be aware of its duty as the governing body of a publicly-listed Company.
- d) The Board shall ensure the presence and adequacy of internal control mechanisms for good governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but shall not be limited to<sup>18</sup>:
  - i. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;

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<sup>15</sup>SEC Model.

<sup>16</sup>SEC Model.

<sup>17</sup>Berlin Initiative Group German Code of Corporate Governance

<sup>18</sup>SEC Memorandum Circular No. 2, series of 2002.

- ii. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
- iii. Appointing a CEO with the appropriate ability, integrity, and experience to fill the role; and defining the duties and responsibilities of the CEO;
- iv. Reviewing proposed senior management appointments;
- v. Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Corporation's personnel and human resources policies, compensation plan and the management succession plan;
- vi. Institutionalizing the internal audit function;
- vii. Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

#### 1.9 **Specific Duties of the Board of Directors**

The Board shall exert its best effort to ensure a high standard of best practice for the Corporation, **its stockholders and other stakeholders**. To do so, it shall perform all the functions which it is required to perform in the Corporation's By-Laws **with honesty and integrity**, and additionally, shall –

- a) Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings should be minuted;
- b) Constitute an Audit Committee and such other Committees as are required in the By-Laws of the Corporation;
- c) Select and appoint a President/ Chief Executive Officer and other senior officers with the appropriate level of motivation, integrity, competence and professionalism;

- d) Adopt a professional development program for employees and officers, and succession planning for senior management and key positions in the Corporation;
- e) Provide sound written policies and strategic guidelines on key capital expenditures, and periodically evaluate and monitor implementation of such strategies;
- f) Ensure that the Corporation complies with all relevant laws, regulations and as far as possible best business practices;
- g) Formulate a clear communication and disclosure strategy to accurately, timely and effectively communicate with the SEC, the PSE and the Corporation's stockholders **and other stakeholders** on matters of importance;
- h) Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. Such systems shall be regularly reviewed and updated to render for effectiveness;
- i) Identify and monitor, and endeavor to provide appropriate technology and systems for the identification and monitoring of key risks and key performance areas;
- j) The Board is primarily responsible to the stockholders for financial reporting and control, and should:
  - i. Provide to all stockholders relevant and timely information about the Corporation, including but not limited to a semestral report and an annual report of the Corporation's performance, position and prospects through publicly available reports submitted to the Securities and Exchange Commission;
  - ii. Present a balanced and understandable assessment of the Corporation's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;

- iii. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
  - iv. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
  - v. Maintain a sound system of internal control to safeguard stockholders' investment and the Corporation's assets';
  - vi. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;
  - vii. Require the chief audit executive to render to the Audit and Risk Committee an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit and Risk Committee. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management;
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- k) Recommend to the stockholders the appointment of external auditors, in accordance with the recommendation of the Audit and Risk Committee;
  - l) Create a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Corporation's expense, which expense shall be reasonable;

- m) Create an internal self-rating system **and conduct an annual performance assessment** of the Board, **its individual members, its committees, the President and CEO**, and Management;<sup>19</sup>
- n) Cause the Corporation to participate in the Corporate Governance Survey using the CG Scorecard as an instrument;<sup>20</sup>
- o) **Ensure that all directors, executives and employees adhere to the Corporation's Code of Ethics.**

#### 1.10 Specific Responsibilities of each Director

A director's office is one of trust and confidence. He should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should exercise leadership, prudence and integrity in directing the Corporation towards sustained progress over the long term.<sup>21</sup>

In addition to the duties and responsibilities of a Director set forth in the Corporation's By-Laws and existing relevant statutes, a Director shall:

- a) Conduct fair business transactions with the corporation and ensure that personal interest does not bias Board decisions. A director shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. He should observe the conflict of interest policy stated in this Manual.
- b) Devote time and attention necessary to properly discharge his duties and responsibilities. A director should attend and actively participate in Board meetings.
- c) Act judiciously. Before deciding on any matter brought before the Board of Directors, every director should evaluate the issues, ask questions and seek clarifications as appropriate.

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<sup>19</sup> Revised CG Code, Article 7.

<sup>20</sup> Revised CG Code, Article 10.

<sup>21</sup> SEC Model.

- d) Exercise independent judgment. A director should view each problem/ situation objectively and support plans and ideas which he believes are beneficial to the Corporation.
- e) Have a working knowledge of the statutory and regulatory requirements affecting the corporation. This would include a firm knowledge of the contents of the articles of incorporation and by-laws of the Corporation and the amendments thereof, the requirements of the PSE and SEC for the conduct of the Corporation's business, and where applicable, the requirements of other regulatory agencies.
- f) Observe confidentiality. A director shall observe the confidentiality of non-public information acquired by reason of his position as a director. He should not disclose any information to any other person without the authority of the Board.
- g) Ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment. Each director is responsible for assuring that actions taken by the Board maintain the adequacy of the control environment within the Corporation.<sup>22</sup>
- h) Exercise of degree of skill, diligence and care that a reasonably prudent person would exercise in similar circumstances. It shall be sufficient for a director to act on an informed basis in good faith and in an honest belief that the action was taken in the best interest of the Corporation.<sup>23</sup>
- i) Prior to assuming office, attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institution. If necessary, funds shall be allocated by the Corporation for this purpose.

#### **1.11 Liability of Directors**

Directors who willfully and knowingly vote or consent to patently unlawful acts of the Corporation or who are guilty of gross negligence or bad faith in directing the affairs of the Corporation or acquire any personal or pecuniary interest in conflict with their duty as such directors, shall be liable jointly and severally for all damages resulting therefrom suffered by the Corporation, its stockholders and other persons.

<sup>22</sup> SEC Memorandum Circular No 2, series of 2002.

<sup>23</sup> As suggested by the Audit and Risk Committee and approved by the Board.

When a director attempts to acquire or acquires, in violation of his duty, any interest adverse to the Corporation, in respect of any matter which has been reposed in him in confidence, as to which equity imposes a disability upon him to deal in his own behalf, he shall be liable as a trustee for the Corporation and must account for the profits which otherwise would have accrued to the Corporation.<sup>24</sup>

#### 1.12 Compensation and Liability Insurance Coverage of Directors

- a) Each director of the Corporation shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.<sup>25</sup>
- b) Effective from the effective date of this Manual, no director shall be involved in deciding his or her own remuneration.<sup>26</sup>
- c) The Corporation, to ensure effectiveness of holding directors accountable and to attract competent persons as directors, may purchase at its own expense liability insurance coverage for its directors.<sup>27</sup>

## 2. Board Committees

The Board of Directors may create such committees as it may deem necessary to support it in the performance of its functions and in accordance with the By-Laws of the Corporation and to aid in good governance. As a minimum, however, the Board shall be supported by the following committees:

### 2.1 Executive Committee

- a) The Board may appoint from among its members an Executive Committee composed of not less than three (3) members, a majority of whom shall be

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<sup>24</sup> Corporation Code, Section 31.

<sup>25</sup> By-laws, Article IV, Section 17.

<sup>26</sup> SEC Model

<sup>27</sup> Korean Code of Best Practices for Corporate Governance

citizens of the Philippines, and shall designate one of such members as Chairman of the Executive Committee. One of the members shall be an independent director. The proportion of non-Filipino nationals to citizens of the Philippines in the membership of the Executive Committee shall not at any time exceed the proportion that the number of shares of the Corporation held by aliens bears to the number of shares of the Corporation held by citizens of the Philippines as set forth in its Articles of Incorporation.

- b) The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by majority vote of all its members on such specific matters within the competence of the Board of Directors as may from time to time be delegated to the Executive Committee in accordance with the Corporation's By-Laws, except with respect to --
  - i. approval of any action for which shareholders' approval is also required;
  - ii. the filling of vacancies on the Board or in the Executive Committee;
  - iii. the amendment or repeal of By-Laws or the adoption of new By-Laws;
  - iv. the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
  - v. the distribution of cash dividends;
  - vi. the exercise of powers delegated by the Board exclusively to other committees, if any.
- c) Two thirds (2/3) of the members of the Executive Committee shall constitute a quorum. The Executive Committee shall fix its own rules of procedure. An act of the Executive Committee which is within the scope of its powers shall not require ratification or approval for its validity and effectivity, provided however that the Board of Directors may at any time enlarge or redefine the powers of the Executive Committee. All actions of the Executive Committee shall be reported to the Board of Directors at the meeting thereof following such action and shall be subject to revision or alteration by the Board of Directors,

provided that no rights or acts of third parties shall be affected by any such revision or alteration.

## 2.2 Nomination Committee<sup>28</sup>

The Nomination Committee shall be composed of at least three (3) members, **and as far as practicable, majority shall be** independent directors, **including its Chairman**. The Committee shall have the following functions:

- a) **Establish and maintain a process to ensure that all candidates/nominees to be nominated for election as directors at the Annual Stockholders' Meeting are qualified in accordance with the By-laws, Manual of Corporate Governance and relevant laws, rules and regulations and possess none of the disqualifications stated in the Corporation's Revised Code of Corporate Governance;**
- b) **Encourage the selection of a mix of competent directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. In the selection of candidates, the objectives set by the Board regarding its composition are to be seriously considered, as well as the required knowledge, abilities and experience needed to successfully manage the Corporation. Careful attention must be given to ensure that there is independence and diversity, and appropriate representation of women in the Board, subject to the possession of the knowledge, abilities and experience determined by the Board as necessary for the Board to properly perform its functions;**
- c) **Review and evaluate the qualifications of persons nominated to positions in the Corporation which require appointment by the Board, and provide guidance and advice as necessary for the appointments of persons nominated to other positions.**
- d) **Review and disclose succession plans for members of the Board, and officers for the position of Group Directors to the President/CEO.**

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<sup>28</sup> Sec. 6(b)(i) of SEC Memorandum Circular No. 2, series of 2002, states that it shall be the duty of the Board of Directors "to install a process of selection to ensure a mix of competent directors, each of whom can add value and contribute to the formulation of sound corporate strategies and policies."

- e) Provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members and in appointing officers or advisors and develop, update as necessary and recommend to the Board policies for considering nominees for directors, officers or advisors.
- f) Discharge any other duties and responsibilities delegated to the Committee by the Board from time to time.

The Committee shall be guided by the Corporation's mission and vision in the fulfillment of its functions.

### 2.3 Personnel and Compensation Committee<sup>29</sup>

The Personnel and Compensation Committee shall be composed of at least three (3) members, as far as practicable, majority of whom shall be independent directors,<sup>30</sup> including its Chairman. It shall have the following duties and responsibilities:

- a) 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 ensuring that compensation is consistent with the Corporation's culture, strategy and control environment;
- b) Designate the amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Corporation successfully;
- c) Establish a formal and transparent procedure for developing a policy on remuneration packages of individual directors, if any, and officers, which policy shall disallow independent directors from receive options, performance shares and bonuses;

<sup>29</sup>Formerly, the Compensation Committee.

<sup>30</sup> SEC Memorandum Circular No. 2, series of 2002; SEC Model.

- d) Develop a form of Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired;
- e) Provide for the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year;
- f) Review and recommend changes to the existing Human Resources Development or Personnel Handbook, to strengthen provisions of conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts;
- g) Provide for the Corporation's annual report the Corporation's fee structure of non-executive directors, and ensure that independent directors are not entitled to receive options, performance shares and bonuses.

No member of the Personnel and Compensation Committee will act to fix his or her own compensation except for uniform compensation to directors for their services as a director.

#### 2.4 Audit Committee

- a) There shall be an Audit Committee composed of three (3) members, a majority of whom shall be independent directors. The independent director shall chair the Audit Committee. Each member shall have an adequate understanding of accounting and auditing principles in general and of the Corporation's financial management systems and environment in particular.

- b) The Audit Committee is expected, through the provision of checks and balances, to bring positive results in supervising and supporting the management of the Corporation. It shall have the following particular duties and responsibilities:
- i. Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements;
  - ii. Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management. This function shall include receiving from senior management periodic information on risk exposures and risk management activities;
  - iii. Be responsible for setting up an internal audit department and consider the appointment of the chief audit executive; establish and identify the reporting line of the chief audit executive so that the reporting levels allow the internal audit activity to fulfill its responsibilities;
  - iv. Ensure that internal auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results;
  - v. Provide oversight of the corporation's internal and external auditors;
  - vi. Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit;
  - vii. Discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure cooperation where more than one audit firm is needed;
  - viii. Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following:

- 1) a definitive timetable within which the accounting system of the Corporation will be 100% International Accounting Standard (IAS) Compliant
  - 2) an accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.
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- ix. Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation through a step-by-step procedures and policies handbook that will be used by the entire organization;
  - x. Receive and review reports of internal and external auditors and regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies;
  - xi. Review the quarterly, half-year and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, and compliance with tax, legal and stock exchange requirements;
  - xii. Recommend and review the appointment of external auditors and their remuneration;<sup>31</sup>
  - xiii. Review and approve the proportion of audit versus non-audit work both in relation to their significance to the auditor and in relation to the Corporation's total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the external auditor. The amount of non-audit work shall be disclosed in the annual report.

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<sup>31</sup> The provision was lifted from the SEC Model, except for item (g) and (h), which were derived from SEC Memorandum Circular No. 2, series of 2002.

The Internal Audit group of the Corporation shall support the Audit Committee in the rendition of its functions.

## **2.5 Risk Committee**

There shall be a Risk Committee composed of three (3) members, and at least one of whom shall be an independent director. The independent director shall chair the Risk Committee. Each member shall have an adequate understanding of the assessment and mitigation of risks faced by the Corporation.

## **2.6 Committee of Inspectors of Proxies and Ballots**

The Board of Directors shall appoint three (3) persons (who need not be stockholders) to act as **the Committee of Inspectors of Proxies and Ballots** which shall be empowered to pass on the validity of proxies. The Committee shall be guided by existing laws, and rules and regulations of the Commission regarding proxies. The term of office of the Committee members shall be fixed by the Board of Directors. In the event of vacancy in the Committee membership, the Board of Directors may appoint another member to such vacancy.<sup>32</sup>

### **The committee shall have the following particular duties and responsibilities:**

- a. **At least five (5) working days prior to the date of the stockholders' meeting, the Committee shall perform the validation of the proxies submitted by stockholders. The Committee shall only consider proxies submitted not later than seven (7) working days prior to the date of the stockholders' meeting. The Committee shall prepare a summary of the valid and invalidated proxies to be submitted to the Office of the Corporate Secretary, together with the proxies.**
- b. **Validation, counting and tabulation of votes cast at the Corporation's stockholders' meeting.**
- c. **Perform such other duties and functions as may be delegated by the Board from time to time.**

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<sup>32</sup> By-Laws

The Committee shall be guided by applicable laws, the By-laws, and the rules and regulations of the SEC regarding proxies. (SEC Rule 20, Section 20 of the Securities Regulation Code)

## 2.7 Sustainability Committee

The Sustainability Committee shall be composed of at least three (3) members as determined by the Board. The Board shall designate the Chairman of the Committee. The Committee has to be composed in such a way that it possess, as a group, the necessary knowledge, skills and experience required to properly perform its duties. The Committee shall regularly review its composition, taking into consideration the progressing standard of the Corporation, and best practices in sustainable development. As such, the Committee shall have the following particular duties and responsibilities:

- a. Provide oversight, identify and assesses significant social, ethical and environmental interdependencies that might impact on the long-term business objective of ALI to be recognized as a responsible and sustainable Corporation in the property sector;
- b. Guide policy-making in the Corporation's sustainability program, and ensure full Corporation support and alignment with the Ayala Group of Companies' commitment to sustainable development;
- c. Regularly monitor new and innovative technologies, processes and practices that will permit the Corporation to attain sustainable growth;
- d. Regularly review both current and proposed partnerships and relationships with stakeholders that support the Corporation's sustainable growth;
- e. Regularly evaluate the Corporation's communication and marketing strategies related to sustainable growth;
- f. Review the sustainability-related content of the Corporation's annual report prior to its issuance;

## ARTICLE III

### MANAGEMENT

#### 1. **General Responsibilities of Management**

- a) Management stands as the locus of decision-making for the day-to-day affairs of the Corporation. It determines the Corporation's activities by putting the Corporation's targets in concrete terms and by formulating the basic strategies for achieving these targets.<sup>33</sup> It also puts in place the infrastructure for the Corporation's success by establishing the following mechanisms in its organization: i) purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Corporation; ii) useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach; iii) information systems that are defined and aligned with IT strategy and the business goals of the Corporation; iv) a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Corporation.
- b) Management is primarily accountable to the Board for the operations of the Corporation. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the operations and affairs of the Corporation in a timely manner.<sup>34</sup>

#### 2. **Executive Officers of the Corporation**

The Executive Officers of the Corporation are the Chairman, the President and Chief Executive Officer, the Treasurer and/or the Chief Finance Officer, and the Corporate Secretary. The Executive Officers shall be appointed by the Board of Directors.<sup>35</sup> In addition:

- a) The Board of Directors shall appoint (from time to time) one or more Senior Vice Presidents and Vice Presidents, a Comptroller and such other officers, agents and employees as provided for in the Corporation's By-Laws.<sup>36</sup>

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<sup>33</sup> Berlin Initiative German Code of Corporate Governance

<sup>34</sup> SEC Memorandum Circular No. 2, series of 2002.

<sup>35</sup> By-Laws, Article IV, Section 7(d).

<sup>36</sup> By-Laws, Article IV, Section 7(d).

- b) The Board of Directors may, in its discretion and in accordance with the By-Laws, elect a Vice-Chairman of the Board from among its members.
3. The roles of the Chairman and the Chief Executive Officer (“CEO”) may be separate to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making. The Corporation shall disclose the relationship between the Chairman and the CEO, if any, in its annual report to the Securities and Exchange Commission.

a) **Chairman of the Board**

The Chairman of the Board, shall, when present, preside at all meetings of the Board and shall render advice and counsel to the President. He shall –

- i. schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Corporation’s operations;
- ii. prepare the meeting agenda in consultation with the CEO;
- iii. exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- iv. assist in ensuring compliance with the Corporation’s guidelines on corporate governance.<sup>37</sup>

The Chairman shall have such other responsibilities as the Board of Directors may impose upon him.

b) **Vice-Chairman**

In the absence of the Chairman of the Board, the Vice-Chairman shall preside at meetings of the Board.

c) **President/ CEO**

Minimum internal control mechanisms for management’s operational responsibility shall center on the President/CEO, being ultimately accountable for the Corporation’s organizational and

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<sup>37</sup> SEC Memorandum Circular No.2, series of 2002.

procedural controls. In addition to the duties imposed on the President/CEO by the Board of Directors, the President shall:

- i. have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers;
- ii. see that all orders and resolutions of the Board of Directors are carried into effect;
- iii. submit to the Board as soon as possible after the close of each fiscal year, and to the stockholders at the annual meeting, a complete report of the operations of the Corporation for the preceding year, and the state of its affairs;
- iv. report to the Board from time to time all matters within its knowledge which the interest of the Corporation may require to be brought to their notice.

The President/ CEO shall have such other responsibilities as the Board of Directors may impose upon him.

d) **The Treasurer**

The Treasurer of the Corporation shall have charge of the funds, securities, receipts and disbursements of the Corporation. He shall have the following functions:

- i. deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as the Board may from time to time designate;
- ii. regularly and at least every semester render to the President or to the Board an account of the fund condition of the Corporation and of all his transactions as such;
- iii. ensure funds availability on a timely basis and at the most economical means;
- iv. optimize yields in temporary excess funds;
- v. provide relevant and timely capital market information;

- vi. ensure appropriate coverage and management of risk to resources.

The Treasurer shall have such other responsibilities as the Board of Directors may impose upon him.

**e) The Chief Finance Officer (CFO)**

The Chief Finance Officer shall be appointed by the Board of Directors. The CFO who may also be the Treasurer of the Corporation shall be responsible for the following:

- i. provide management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals;
- ii. maintain the integrity of accounting records as the basis of financial statements and reports provided to management for decision-making and to government regulatory bodies in compliance with statutory requirements;
- iii. promote investor confidence in the Corporation by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to various entities are complied with;
- iv. strengthen internal controls by monitoring compliance with policies; recommend to management appropriate actions and changes in systems and procedures as necessitated by circumstances.

The Chief Finance Officer shall have such other responsibilities as the Board of Directors may impose upon him.

**f) The Corporate Secretary**

The Corporate Secretary shall be a resident and citizen of the Philippines. He is an officer of the Corporation and his loyalty to the mission, vision and specific business objectives of the Corporation comes with his duties. Considering his varied functions and responsibilities, he must

possess organizational and interpersonal skills, and the legal skills of a chief legal officer. He must also have some financial and accounting knowledge.<sup>38</sup>

The Corporate Secretary shall have the following functions.<sup>39</sup>

- i. **serve as an adviser to the directors on their responsibilities and obligations;**
- ii. **keep the minutes of meetings of the stockholders, the Board of Directors, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;**
- iii. **work fairly and objectively with the Board, Management, stockholders and other stakeholders;**
- iv. keep in safe custody the seal of the Corporation and affix it to any instrument requiring the same;
- v. have charge of the stock certificate book and such other books and papers as the Board may direct;
- vi. attend to the giving and serving of notices of Board and shareholder meetings;
- vii. be fully informed and be part of the scheduling process of other activities of the Board;
- viii. prepare an annual schedule of board meetings and the regular agendas of meetings, and put the Board on notice of such agenda at every meeting;
- ix. oversee the adequate flow of information to the Board prior to meetings;
- x. ensure fulfillment of disclosure requirements to the Securities and Exchange Commission and the Philippine Stock Exchange.

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<sup>38</sup> SEC Memorandum Circular No. 2, series of 2002.

<sup>39</sup> By-Laws, Article IV, Section 14; SEC Memorandum Circular No. 2, series of 2002; SEC Model.

The Corporate Secretary shall have such other responsibilities as the Board of Directors may impose upon him.

The Board shall have separate and independent access to the Corporate Secretary.

## ARTICLE IV

### GOVERNANCE POLICY ON CONFLICT OF INTEREST

#### 1. Conflict of Interest Policy

The personal interest of directors and officers should never prevail over the interest of the Corporation. They are required to be loyal to the organization so much so that they may not directly or indirectly derive any personal profit or advantage by reason of their position in the Corporation. They must promote the common interest of all shareholders and the Corporation without regard to their own personal and selfish interests.<sup>40</sup>

- a) A conflict of interest exists when a director or an officer of the Corporation—
  - i. Supplies or is attempting or applying to supply goods or services to the Corporation;
  - ii. Supplies or is attempting to supply goods, services or information to an entity in competition with the Corporation;
  - iii. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to the Corporation;
  - iv. Is offered or receives consideration for delivering the Corporation's business to a third party;
  - v. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interests of the Corporation.
- b) If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material nature should either resign or, if the Board deems appropriate, be removed from the Board.

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<sup>40</sup> Canlas' Handbook on Stock, Stockholders and Directors

- c) A contract of the Corporation with one or more of its directors or officers is voidable, at the option of the Corporation, unless all the following conditions are present:<sup>41</sup>
- i. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
  - ii. The vote of such director was not necessary for the approval of the contract;
  - iii. The contract is fair and reasonable under the circumstances;
  - iv. In case of an officer, the contract has been previously approved by the Board of Directors.

Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director, such contract may be ratified by the vote of stockholders representing two-thirds (2/3) of the outstanding capital stock in a meeting called for that purpose; provided that full disclosure of the adverse interest of the director involved is made at such meeting; and provided further that the contract is fair and reasonable under the circumstances.

- d) Where a director, by virtue of his office, acquires for himself a business opportunity which should belong to the Corporation, thereby obtaining profits to the prejudice of the Corporation, the director must account to the latter for all such profits by refunding the same, unless his act has been ratified by a vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock. This provision shall be applicable notwithstanding the fact that the director risked his own funds in the venture.<sup>42</sup>
- e) The foregoing is without prejudice to the Corporation's existing Code of Conduct and Ethics for its officers, employees and staff.

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<sup>41</sup> Corporation Code, Section 32

<sup>42</sup> Corporation Code, Section 34

## ARTICLE V

### AUDIT AND COMPLIANCE

#### 1. Internal Audit

- a) The Internal Audit Group shall provide independent and objective assurance and advisory services to the Corporation designed to add value and improve on the organization's operations. **It shall provide the Board, Management and the stockholders and other stakeholders an effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders. It shall also provide the Board, Management and the stockholders and other stakeholders** with reasonable assurance that the Corporation's key organizational and procedural controls are effective, appropriate, and complied with. It shall review, audit and report on, among others, the effectiveness of the system of organizational controls, taking into account the nature and complexity of the business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- b) It shall perform its auditing functions faithfully by maintaining independence from the management and controlling shareholders.
- c) The Internal Audit Group shall be headed by an Chief Audit Executive. The Chief Audit Executive shall preferably be a Certified Public Accountant and/or a Chief Internal Auditor and shall report to the Audit Committee of the Board of Directors.
- d) The Internal Auditors shall report that their activities are conducted in accordance with the Standards for the Professional Practice of Internal Auditing. Otherwise, the Chief Audit Executive shall disclose to the Board and Management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.<sup>43</sup>

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<sup>43</sup> SEC Memorandum Circular No. 2, series of 2002 except for the requirement of being a CPA.

## 2. **External Audit**

- a) The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which the financial statements shall have been prepared and presented.
- b) The External Auditor shall –
  - i. perform fair audits independently from the Corporation, its management and controlling shareholders, so that shareholders and other users may maintain confidence in the corporation's accounting information;
  - ii. check whether any fact conflicts with the audit results in the information disclosed regularly with the audited financial statements, and demand correction, if necessary;
  - iii. attend the annual stockholders meeting and answer any questions on audit reports and on themselves, their work and their remuneration;
  - iv. perform such other functions as may be approved by the Board in its engagement of the auditor *provided, however*, that non-audit work shall not be in conflict with the functions of the auditor as external auditor.
- c) The External Auditor shall be required to stipulate its duties and responsibilities to the Corporation.<sup>44</sup>
- d) The External Auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.
- d) The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor 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, which if not resolved to the satisfaction of the former

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<sup>44</sup>As suggested by the Audit and Risk Committee and approved by the Board.

auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.

- e) If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall also present his views in said reports.<sup>45</sup>

### 3. **Compliance System**

To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the position of a Vice President or its equivalent.

The Compliance Officer shall perform the following duties:

- a) Operationalize this Manual, and monitor compliance with the provisions and requirements of this Manual;
- b) Appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- c) Determine violation/s of the Manual and recommend to the Board for its further review and approval the penalty for the violation/s found and the adoption of measures to prevent a repetition of the violation/s;
- d) Issue a certification every January 30<sup>th</sup> of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same; and
- e) Provide the Commission at the end of every fiscal year with a sworn certification that the requirement for independent directors and their attendance at meetings in accordance with Sec. II(7) of SEC Memorandum Circular No. 2 has been complied with. The said certification may be submitted with the Corporation's current report (SEC Form 17-1) or on a separate filing;
- f) Identify, monitor and control compliance risks;

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<sup>45</sup> SEC Memorandum Circular No. 2, series of 2002.

- g) Determine violations of this Manual and create a system for according due notice, hearing, and due process for dealing with violations of the Manual;
- h) Recommend the penalties for violations of the manual, for further review and approval of the Board.

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C. All correspondence relative to his functions as such shall be addressed to said Officer.<sup>46</sup>

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<sup>46</sup>SEC Model: SEC Memorandum Circular No. 2, series of 2002.

## ARTICLE VI

### COMMUNICATION AND INFORMATION

#### 1. Management's Responsibility for Information

- a) Management is primarily responsible to the Board for financial reporting and control, and to this extent, shall:
  - i. Present a balanced and understandable assessment of the Corporation's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;
  - ii. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
  - iii. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
  - iv. Maintain a sound system of internal control to safeguard stockholders' investment and the Corporation's assets;
  - v. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;
  - vi. Require the Chief Audit Executive to render to the Audit Committee an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management.

- b) Management shall be primarily responsible for the adequate flow of information to the Board. This information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure statements and documents, budgets, forecasts and monthly internal financial statements. Any variance between projections and actual results should also be disclosed and explained by Management to the Board.
- c) **Management, through the Investor Relations function, shall be responsible for publicly and timely disclosure of all material information about the Corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.**

**The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.**

## **2. The Investor Relations Function**

There shall be an Investor Relations Division within the Corporation, which shall be tasked with --

- a) Creation and implementation of an investor relations program that reaches out to all shareholders and fully informs them of corporate activities;
- b) Formulation of a clear policy on communicating or relating relevant information to Corporation stockholders and to the broader investor community accurately, effectively and sufficiently;
- c) Preparation of disclosure documents to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange, and
- d) Dissemination of this Manual, and the conduct of an orientation program for the Board and Management.

The Investor Relations Division shall report to the Chief Finance Officer.

3. **Communication of this Manual**

This Manual shall be submitted to and made available at the Philippine Securities and Exchange Commission. It shall also be available for inspection by any stockholder of the Corporation at its principal office during reasonable hours on a business day.

## ARTICLE VII

### STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS<sup>47</sup>

#### 1. Shareholder Rights

The Board shall be committed to respect the following rights of the stockholders:

##### a) **Voting Right**

All stockholders, including minority stockholders, have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

Cumulative voting shall be used in the election of directors. Directors may be removed with or without cause, but directors shall not be removed without cause if it will deny minority shareholders representation in the Board. Removal of directors requires an affirmative vote of two-thirds (2/3) of the outstanding capital of the Corporation.

##### b) **Pre-emptive Right**

All stockholders have pre-emptive rights, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the corporation. The Articles of Incorporation may lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which are protected by law so long as they are not in conflict with the Corporation Code.

##### c) **Right of Inspection**

Shareholders shall be allowed to inspect corporate books and records including minutes of Board meeting and stock registries in accordance with the Corporation Code and shall be provided an annual report, including financial statements, without cost or restrictions.

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<sup>47</sup>SEC Memorandum Circular No. 2, series of 2002.

d) **Right to Information**

The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers. The Information Statement/Proxy Statement where these are stated must be distributed to the shareholders before annual general meetings and in the Registration Statement and Prospectus in case of registration of shares for public offering with the Commission.

The minority shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

In accordance with existing law and jurisprudence, minority shareholders shall have access to any and all information relating to matters for which the management is accountable for and to those relating to matters for which the management should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access.

e) **Right to Dividends**

Shareholders have the right to receive dividends subject to the discretion of the Board. However, the Commission may direct the corporation to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) 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.

f) **Appraisal Right**

In accordance with the Corporation Code, shareholders may exercise appraisal rights under the following circumstances:

- i. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- ii. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- iii. In case of merger or consolidation.

2. **Duty of Directors to promote shareholders' rights**

It is the duty of the directors to promote shareholders' rights, remove impediments to the exercise of shareholders' rights and recognize lawful mechanisms to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

## **ARTICLE VIII**

### **PENALTIES FOR NON-COMPLIANCE WITH THIS MANUAL**

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed after notice and hearing, on the Corporation's directors, officers, staff, in case of violation of any of the provisions of this Manual:

1. In case of first violation, the subject person shall be reprimanded;
2. In case of second violation, suspension from office shall be imposed. The duration shall be at the reasonable discretion of the Board, depending on the gravity of the violation;
3. For third violation, removal from office. The commission of a third violation of this manual by any member of the Board shall be a sufficient cause for removal from directorship.

## **ARTICLE IX**

### **REVIEW AND AMENDMENT OF MANUAL**

1. The provisions of this Manual and the enforcement thereof shall be subject to quarterly review unless otherwise stated by the Board.
2. All business processes and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to the compliant state.
3. This Manual is subject to review and amendment to take into account the Corporation's changing needs, factual conditions prevailing in the environment and regulatory requirements.

## **ARTICLE X**

### **ADOPTION AND EFFECTIVITY OF REVISED MANUAL**

This Manual was adopted by the Board of Directors of the Corporation on AUGUST 26, 2002. It shall be effective on January 01, 2003. Amendments to comply with regulatory issuances of the Securities and Exchange Commission shall be deemed adopted and effective upon effectivity of the relevant regulatory issuance.