



Ayala Corporation

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September 28, 2015

Securities and Exchange Commission
SEC Building, Mandaluyong City

Attention: Director Justina F. Callangan
Director, Corporate Governance & Finance Department

Philippine Stock Exchange, Inc.
3/F 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/F Tower 1, The Enterprise Center
6766 Ayala Ave cor. Paseo de Roxas, Makati City

Attention: Ms. Vina Vanessa S. Salonga
Head, Issuer Compliance and Disclosure Department

Gentlemen:

Please find attached our Manual of Corporate Governance with our updated vision statement.

Thank you.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Solomon M. Hermosura', written over a horizontal line.

SOLOMON M. HERMOSURA
General Counsel, Corporate Secretary
and Compliance Officer

A small, stylized handwritten mark or signature in blue ink, located below the typed name of Solomon M. Hermosura.



AYALA CORPORATION

MANUAL OF CORPORATE GOVERNANCE

2015

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ARTICLE I

DEFINITIONS, FRAMEWORK OF GOVERNANCE AND ORGANIZATIONAL COMMITMENT TO GOOD GOVERNANCE

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 customers, employees, suppliers, and financiers, and the government and the community in which it operates” ¹. It encompasses the entirety of the legal and factual regulatory framework for managing and supervising a Corporation². 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 and other stakeholders concerned, thereby safeguarding stockholders’ and other stakeholders’ rights as well as promoting stockholders’ and other stakeholders’ participation in the corporate governance process.

The governing rules for Corporate Governance are 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 the Securities Regulation Code (Republic Act No. 8799), and the implementing rules and regulations, and the Code of Corporate Governance (SEC Memorandum Circular [MC] No. 2, Series of 2002, as amended by SEC MC No. 6, Series of 2009 and SEC MC 9, Series of 2014) issued by the Securities and Exchange Commission (“SEC” or “Commission”). When the context allows and when appropriate, a term used herein shall have the meaning given to such term in the relevant and applicable laws and implementing rules and regulations.

The structure for corporate governance of Ayala Corporation (“Ayala Corporation” or “Ayala” 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 Revised 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.

¹ SEC Memorandum Circular No. 9, series of 2014.

² Berlin Initiative Group Code of Corporate Governance.

The Board of Directors, Management, Officers and employees of Ayala Corporation 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 a good corporate governance within the organization. At the same time, the entire organization declares its continuing commitment to the Vision and Mission Statements and core values of Ayala Corporation made an integral part of this Manual.

VISION

We will be the most relevant, innovative, and enduring Philippine-based business group, enabling shared value and prosperity for the many markets and stakeholders we serve.

MISSION

Ayala Corporation, a holding company with a diverse business portfolio, has a legacy of pioneering the future. Founded in 1834, it has achieved its position of leadership by being values driven, goals oriented, and stakeholder focused. Anchored on values of integrity, long-term vision, empowering leadership, and commitment to national development, we fulfill our mission to ensure long-term profitability, increase shareholder value, provide career opportunities, and create synergies as we build mutually beneficial partnerships and alliances with those who share our philosophy and values. With entrepreneurial strength, we continue to create a future that nurtures to fruition our business endeavors and personal aspirations.

BRAND VALUES

Ayala brand values

Values drive behavior in an organization. Narrowing down our previous roster of values to four core values was an important first step in our brand review. The short listed values then helped to inform our brand promise.

Below are the four core values that guide the way we work in all aspects of our business and stakeholder interactions.

Integrity

Integrity means “doing the right thing”- being held accountable for all our actions. And doing the right thing has earned Ayala a commanding position of trust among its stakeholders. But integrity starts with individuals, the kind of individuals we engage at Ayala. Their individual ethics are perpetuated and reinforced by our corporate culture.

Long-Term Vision

Ayala’s track record of success was built by looking to the future. In banking, real estate, telecommunications, and utilities, our CEOs had a vision that they transformed into reality by fostering in all our Ayala citizens the spirit of entrepreneurship, excellence, synergy and by rewarding intelligent risk-taking while holding each accountable for doing the best thing today in order to reap tomorrow’s rewards.

BRAND VALUES

Empowering Leadership

At Ayala, we realize that leaders today need to manage a whole range of issues in increasingly complex situations. These challenges can only be met by empowering people at all levels of the organization to make decisions and to take action, within the framework of a shared vision and a shared corporate culture of innovation, responsibility and accountability.

Commitment to National Development

We take seriously our responsibilities as corporate citizens over and above compliance with the rule of law. We believe that beyond our business objectives, we must also do our share in nation building through programs in corporate social responsibility that help develop individuals, communities, and the country as a whole.

ARTICLE II

BOARD GOVERNANCE

1. The Board of Directors

The Board of Directors is the supreme authority in matters of governance and in managing the regular and ordinary business of the Corporation. Within their authority under the Corporation Code and other applicable laws and the By-laws of the Corporation, the directors acting as a Board have the fullest powers to regulate the concerns of the Corporation according to their best judgment.

1.1 Composition

The Board of Directors shall have seven (7) members who shall be elected individually³ 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.⁴

The Board shall encourage the selection of a mix of competent Directors, each of whom can add value and independent judgment in the formulation of sound corporate strategies and policies.⁵

In line with the best practice in corporate governance and in accordance with the standards set by the Association of Southeast Asian Nations ("ASEAN Standards"), it is the Corporation's goal to have Independent Non-executive Directors comprise more than 50% of the Board.⁶ The Independent Directors shall be identified in the annual report.⁷

1.2 Qualifications

A director of the Corporation shall have the following qualifications:⁸

³ ACGS, A.3.3.

⁴ ACGS, E.3.11.

⁵ ASEAN Corporate Governance Scorecard (ACGS), E.4.6.

⁶ Board Charter, Section 3.3; ACGS, E.2.4, and E.4.1 (B).

⁷ Securities Regulation Code (SRC); SEC Memorandum Circular No. 2, series of 2002.

⁸ Except for item (b) which is a legal requirement, all other qualifications are derived from the SEC Model.

- a) Ownership of at least one (1) share of the capital stock of the Corporation standing in his name in the books of the Corporation at the time of his election;⁹
- b) A college degree or its equivalent or adequate competence and understanding of the fundamentals of doing business or sufficient experience and competence in managing a business to substitute for such formal education;
- c) Relevant qualification, such as previous business experience, membership in good standing in relevant industry, and membership in business or professional organizations;¹⁰
- d) Integrity, probity and diligence and assiduousness in the performance of his functions;
- e) Directorships in other companies¹¹, taking into account the following factors:
 - e.1) the nature of the business of the Corporation;
 - e.2) the number of directorships in other companies;
 - e.3) any possible conflict of interest; and
 - e.4) the age of the director;
- f) For Independent Directors, beneficial equity ownership in the Corporation or in its related companies, which must not exceed two percent (2%),¹² and
- g) The term limit set for Independent Directors under applicable laws, rules and regulations.¹³

1.3 Disqualifications

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

⁹ Corporation Code, Sec. 23

¹⁰ CG Code, Article 3.D) (iii)

¹¹ SEC Revised Code of Corporate Governance, Article 3 (B); ACGS, E.2.8 and E.2.9.

¹² SEC Revised Code of Corporate Governance, Article 3 (E)(2)(iv).

¹³ ACGS, E.2.6 and E.2.1 (P)

- 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 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;
- 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.¹⁴
- 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 engaged¹⁵
 - h.1) 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
 - h.2) 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

¹⁴ Disqualifications (a), (b) and (d) to (f) are required by the SEC Model Code; disqualification (c) is required by the Public Service Law.

¹⁵ By-Laws, Article IV, Section 3

- h.3) 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.1) or (h.2).

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.

- 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.¹⁶

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.
- b) Absence or non-participation in more than Seventy-Five Percent (75%)¹⁷ of all meetings, both regular and special, of the Board of Directors during any term, unless the absence or non-participation is due to illness, death in the immediate family or serious accident,¹⁸ in which case the Director(s) concerned shall not be eligible for re-election in the succeeding election.
- c) Dismissal/ termination from directorship in another listed corporation for cause, unless and until the Director concerned has cleared himself of any involvement in the alleged irregularity.
- d) Being under preventive suspension by the Corporation for any reason.

¹⁶ SEC Memorandum Circular No. 9, series of 2011; Charter of the Board of Directors (“Board Charter”).

¹⁷ ACGS, E.3.3; Board Charter, Section 5.3.

¹⁸ SEC Revised Code of Corporate Governance, Article 3.E) 2. (ii).

- 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.

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.¹⁹

1.5 Independent Directors

The Board shall have such number of Independent Directors as may be required by law and the rules of the SEC and the Philippine Stock Exchange (PSE) (the “Philippine Requirements”)²⁰, and the ASEAN Standards set for the strengthening of the ASEAN capital market development and integration for the establishment of an ASEAN Economic Community.²¹

Independent Directors shall, apart from their fees and shareholdings, be independent from Management and free from any business or other relationship which would, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out his responsibilities as a Director of the Corporation. For this purpose, 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.²²

An Independent Director, under Philippine law and the rules of the SEC and the PSE, is one who:

- a) is not a Director or officer or substantial stockholder of the Corporation or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing).²³ In this context, “related company”

¹⁹ SEC Revised CG Code of Corporate Governance, Article 3.I.

²⁰ By-laws, Article IV, Sec. 1; Board Charter, Section 2.4.

²¹ ACGS.

²² Korean Code of Best Practice for Corporate Governance.

²³ SEC Memorandum Circular No. 16, series of 2002, II. A. i.

means another company which is: (a) its holding company, (b) its subsidiary, or (c) a subsidiary of its holding company,²⁴ and “substantial shareholder” means any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security;²⁵

- b) is not a relative of any Director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, “relative” includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;²⁶
- c) is not acting as a nominee or representative of a substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders;²⁷
- d) has not been employed in any executive capacity by the Corporation, any of its related companies or by any of its substantial shareholders within the last five (5) years;²⁸
- e) is not retained as professional adviser of the Corporation, any of its related companies or any of its substantial shareholders within the last five (5) years, either personally or through his firm;²⁹
- f) has not engaged and does not engage in any transaction with the Corporation or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms’ length and are immaterial or insignificant.³⁰

The types of transaction or affiliation under paragraph (f) above which disqualify one from becoming an Independent Director include:

²⁴ SEC Memorandum Circular No. 16, series of 2002, II. B. i.

²⁵ SEC Memorandum Circular No. 16, series of 2002, II. B. ii.

²⁶ SEC Memorandum Circular No. 16, series of 2002, II. A. ii.

²⁷ SEC Memorandum Circular No. 16, series of 2002, II. A. iii.

²⁸ SEC Memorandum Circular No. 16, series of 2002, II. A. iv.

²⁹ SEC Memorandum Circular No. 16, series of 2002, II. A. v.

³⁰ SEC Memorandum Circular No. 16, series of 2002, II. A. vi.

- f.1) personal service contracts with the Corporation, or any of its related companies, or its senior management;
- f.2) being affiliated with a significant customer or supplier of the Corporation or any of its related companies. For this purpose, a person shall be deemed to be affiliated with a party if such person (a) has a direct or indirect ownership interest in, or (b) is employed by such party;
- f.3) being affiliated with a non-profit organization that receives significant funding from the Corporation, or any of its related companies;
- f.4) being a member of the immediate family of an individual who is, or has been during the past five years, employed by the Corporation or any of its related companies as an executive officer; or
- f.5) being affiliated with or employed by a present or former auditor of the Corporation, or any of its related companies in the past five years has been.³¹

An Independent Director shall be disqualified during his tenure under the following instances or causes:

- a) He becomes an officer or employee of the Corporation or becomes any of the persons enumerated above;
- b) His beneficial security ownership in the Corporation or in its related companies exceeds two percent (2%)³², in which case the Corporation shall forthwith cease to consider him as an Independent Director until his beneficial security ownership is reduced to two percent (2%) or lower.
- c) He fails to meet the attendance requirement as set forth in Section 5.3 of the Board Charter.

An Independent Director under the ASEAN Standards shall also possess the qualifications and none of the disqualifications for an Independent Director under the Philippine Requirements provided and except that, when relevant in the application of the qualifications and disqualifications, a “substantial stockholder” shall mean a stockholder

³¹ National Association of Securities Dealers Automated Quotations (NASDAQ) Rule 4200, a(15).

³² SEC Revised Code of Corporate Governance, Article 3. E) 2. (iv).

who possesses the power to direct or govern, directly or indirectly, the financial and operating policies of the Corporation so as to obtain benefits from its activities.³³

The Corporation shall, as appropriate, provide independent directors with technical support staff to assist them in performing their duties. Independent directors may, when necessary, also request and receive support from executives, employees or outside professionals such as 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 the Directors of their duties. The Independent Directors and Non-executive Directors shall hold no more than five board seats in publicly-listed companies and Executive Directors shall hold no more than two board seats in listed companies outside the Corporation's group.³⁴ In the implementation of this policy, the Board may consider several directorships in related companies or companies in the same industry as one. . The Board may also allow Executive Directors to hold directorships that are necessary or desirable in the pursuit of the Corporation's business or in furtherance of its corporate social responsibility.

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.
- b) The Board may, to promote transparency, require the presence of at least one (1) Independent Director in all of its meetings.³⁵ 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 meet at least six (6) times each calendar year.³⁶ It shall hold a meeting before the start of the financial year,³⁷ immediately after the annual

³³ Annex "A" of the Board Charter.

³⁴ AGCS, E.2.8 and E.2.9.

³⁵ SEC Revised Code of Corporate Governance, Article 3. I).

³⁶ ACGS, E.3.2 and Board Charter Section 5.1.

³⁷ ACGS, E.3.1.

meeting of the stockholders, at least once every quarter,³⁸ and on such other days that it may designate.

It may be convened in special meeting by the Chairman or at least the request of three (3) Directors.³⁹

- d) 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.⁴⁰
- e) Non-executive Directors shall meet without any executives present at least once a year.⁴¹

1.8 General Responsibility of the Board for Good Governance⁴²

- a) Compliance with the principles of good governance shall start with the Board of Directors.⁴³ It shall be the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.⁴⁴
- b) To ensure good governance of the Corporation, the Board shall formulate and continuously review the Corporation's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.⁴⁵ The Board shall review the vision and mission statement of the Corporation every year,⁴⁶ and shall oversee the implementation of the corporate strategy.⁴⁷
- c) To the extent set forth above, the Board of Directors shall orient all its activities towards three general guidelines:

³⁸ By-laws, Article IV, Sec. 6.

³⁹ By-laws, Article IV, Sec.6; Corporation Code, Sec. 53

⁴⁰ ACGS, E.3.4.

⁴¹ ACGS, E.3.5.

⁴² AGCS, E.1.3.

⁴³ SEC Model.

⁴⁴ SEC Memorandum Circular No. 9, series of 2014.

⁴⁵ SEC Revised Code of Corporate Governance, Article 3. F) 1.

⁴⁶ ACGS, E.1.4 and E.1.5.

⁴⁷ ACGS, E.1.6.

- c.1) 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.
- c.2) 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.⁴⁸
- c.3) 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 to⁴⁹:
 - d.1) Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;
 - d.2) Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
 - d.3) Appointing a CEO with the appropriate ability, integrity, and experience to fill the role; and defining the duties and responsibilities of the CEO;
 - d.4) Reviewing proposed senior management appointments;
 - d.5) 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;
 - d.6) Institutionalizing the internal audit function;

⁴⁸ Berlin Initiative Group German Code of Corporate Governance

⁴⁹ SEC Memorandum Circular No. 2, series of 2002.

- d.7) 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 stakeholders⁵⁰. To do so, it shall perform all the functions which it is required to perform in the Corporation's By-Laws, 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 shall be minuted;
- b) Create committees and other bodies it may deem advantageous or necessary in running the affairs of the Corporation, as well as appoint advisory Directors who can participate in Board deliberations but whose functions shall be strictly advisory and non-voting; and appoint officers as the Board may deem necessary, and fix their duties and powers;⁵¹
- c) Select and appoint a President/ Chief Executive Officer and other senior officers with the appropriate level of motivation, integrity, competence and professionalism in accordance with the process and criteria set in the Board Charter;⁵²
- d) Adopt a professional development program for employees and officers, and succession planning for senior management and key positions in the Corporation in accordance with the criteria set in the Board Charter and Charter of the Nomination Committee;⁵³
- 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;

⁵⁰ SEC Memorandum Circular No. 9, series of 2014.

⁵¹ By-Laws, Article IV, Sec. 7d.

⁵² Annex "B" of the Board Charter; ACGS, E.5.3.

⁵³ Annex "B" of the Board Charter; Charter of the Nomination Committee, Section 4; ACGS, E.5.3.

- g) Formulate a clear communication and disclosure policy and strategy to accurately, promptly, regularly and effectively communicate with the SEC, the PSE and the Corporation's stockholders and other stakeholders⁵⁴ and oversee the proper and effective implementation thereof.⁵⁵
- h) Adopt a system of internal checks and balances within the Board and the Corporation. Such internal control system shall be regularly reviewed and updated to maintain its adequacy and effectiveness;
- i) Identify and monitor key risks and key performance areas, and endeavor to provide appropriate technology and systems for the proper identification and monitoring thereof;
- j) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and that of interlocking director relationships by members of the Board;⁵⁶
- k) Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties;⁵⁷
- l) Create an internal self-rating system for the annual performance assessment of the Board , the individual Directors, the board committees, the President and CEO and other key management officials in accordance with the process and criteria laid down in the Board Charter;⁵⁸
- m) Cause the company to participate in the Corporate Governance Survey using the ASEAN Corporate Governance Scorecard as an instrument;⁵⁹

⁵⁴ SEC Memorandum Circular No. 9, Series of 2014.

⁵⁵ ACGS, E.1.3.

⁵⁶ SEC Revised Code of Corporate Governance, Article 3. F) 2. h).

⁵⁷ SEC Revised Code of Corporate Governance, Article 3.F) 2. j).

⁵⁸ SEC Revised Code of Corporate Governance, Article 7; Annex "B" of the Board Charter; ACGS, E.5.4 and E.5.11.

⁵⁹ SEC Revised Code of Corporate Governance, Article 10.

- n) The Board is primarily responsible to the stockholders and other stakeholders for financial reporting and control, and should:
- n.1) Provide to all stockholders and other stakeholders 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 SEC;
 - n.2) 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;
 - n.3) Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
 - n.4) Report that the business is a going concern, with supporting assumptions or qualifications, if necessary
 - n.5) Maintain a sound system of internal control to safeguard stockholders' and other stakeholders' investment and the Corporation's assets;
 - n.6) 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;
 - n.7) 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. 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;

- o) Recommend to the stockholders the appointment of external auditors, in accordance with the recommendation of the Audit Committee;⁶⁰
- p) 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;
- q) Implement and monitor compliance with the Code of Conduct and Ethics;⁶¹ and
- r) Fix a record date for the purpose of determining the stockholders who are entitled to exercise the rights such as, but not limited to, the rights to receive notice of, and to vote at, any meeting of stockholders and the right receive dividend. In cases of declaration of cash dividends, the record date shall in no case be less than ten (10) no more than thirty (30) days from said declaration.⁶²

1.10 Specific Responsibilities of each Director

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) ***Be one of trust and confidence.*** He should act in the best interest of the Corporation, the stockholders and other stakeholders 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.⁶³
- b) ***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.

⁶⁰ AGCS, E.2.30

⁶¹ ACGS, E.2.3.

⁶² By-Laws, Article III, Section 12.

⁶³ SEC Model

He should observe the conflict of interest policy stated in this Manual, the Board Charter and Code of Conduct and Ethics.

- c) ***Devote time and attention necessary to properly discharge his duties and responsibilities.*** A Director should attend and actively participate in Board meetings.
- d) ***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.
- e) ***Exercise independent judgment.*** A Director should view each problem/ situation objectively and support plans and ideas which he believes are beneficial to the Corporation.
- f) ***Have a working knowledge of the statutory and regulatory requirements affecting the corporation.*** This includes 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.
- g) ***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.
- h) ***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.⁶⁴
- i) ***Orientation and Continuing Education Programs for Directors.*** Prior to assuming office, all new Directors shall undergo orientation program on the Corporation's business and corporate structure, its vision, mission and corporate strategy, the By-laws and Manual of Corporate Governance, and other relevant matters essential for the effective performance of their duties and responsibilities.⁶⁵

⁶⁴ SEC Memorandum Circular No 2, series of 2002.

⁶⁵ ACGS, E.5.1.

Directors shall likewise attend at least once a year, a seminar on corporate governance which shall be conducted by training providers that are duly accredited by the SEC.⁶⁶ 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 stakeholders.

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.⁶⁷

1.12 Compensation and Liability Insurance Coverage of Directors

- a) The Board of Directors shall have the sole authority, in accordance with the resolution of the stockholders or the By-laws, to determine the amount, form and structure of the fees and other compensation of the Directors.⁶⁸
- b) Only non-executive directors shall be entitled to receive from the Corporation fees other compensation for their services as Directors. In no case shall the total yearly compensation of such Directors exceed one percent (1%) of the net income before tax of the Corporation during the preceding year.⁶⁹
- c) From the effective date of this Manual, no Director shall be involved in deciding his own remuneration during his incumbent term.⁷⁰

⁶⁶ SEC Memorandum Circular No. 20, series of 2013.

⁶⁷ Corporation Code, Section 31.

⁶⁸ By-laws, Article IV, Sec. 20

⁶⁹ By-laws, Article IV, Sec. 20; Corporation Code, Sec. 30.

⁷⁰ SEC Model.

- d) 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.⁷¹

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.

2.1 **Executive Committee**

- a) The Board shall appoint from among its members an Executive Committee composed of not less than three (3) but not more than five (5)⁷² members, majority of whom shall be citizens of the Philippines, and shall designate among the members of the Committee a Chairman and a Vice Chairman. The Board may from time to time increase the membership of the Committee, and appoint additional members therein, who may or may not be Directors.⁷³

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 --
 - b.1) approval of any action for which shareholders' approval is also required;
 - b.2) filling of vacancies on the Board or in the Executive Committee;

⁷¹ Korean Code of Best Practices for Corporate Governance.

⁷² By-laws, Article IV, Sec. 12.

⁷³ Revised Executive Committee Charter, Section 1.1.

- b.3) amendment or repeal of By-Laws or the adoption of new By-Laws;
 - b.4) amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
 - b.5) distribution of cash dividends; and
 - b.6) exercise of powers delegated by the Board exclusively to other committees, if any.
- c) The Chairman of the Executive Committee is the legal representative of the Corporation. He shall execute the resolutions of the stockholders' General Meetings, of the Board, and of the Committee; sign, in accordance with said resolutions, such contracts, instruments and powers of attorney as may be necessary; represent the Corporation and vote at the stockholders' meetings all stocks owned by the Corporation in other corporations or companies; prepare semi-annually the budget of administration expenses; appoint and discharge the employees occupying the positions authorized by the Board or by the Executive Committee; supervise the accounting and cash, and sign, with the President and the Chief Finance Officer, the Balance Sheet, profit and Loss Statement and Annual Reports; and attend to the correspondence and sign receipts for incoming monies.⁷⁴
- d) A majority of all 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 such act shall be subject to revision or alteration by the Board; *provided, further*, that no rights or acts of third parties shall be affected by such revision or alteration. 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.
- e) The Committee shall hold meetings as often as may be deemed necessary or desirable at a time and place determined by its Chairman.⁷⁵ The actions of the Committee may also be taken by written consent (in physical, electronic or digital format) by majority of the members when deemed necessary by the Committee or

⁷⁴ By-laws, Article IV, Sec. 11; Charter of the Executive Committee, Section 3.

⁷⁵ By-laws, Article IV, Sec. 13.

its Chairman. The minutes of the Committee meeting will be recorded and maintained by the Corporate Secretary and presented to the Committee at the next Committee meeting for approval. The Corporate Secretary or his designated representative shall act as secretary for the meetings.

2.2 **Nomination Committee**

- a) The Nomination Committee shall be composed of at least three (3) Directors, majority of whom shall be Independent Directors.⁷⁶ The Board may from time to time increase the membership of the Committee, and appoint additional members therein, who may or may not be directors of the Corporation.

The Board shall designate one (1) member of the Committee, who must be an Independent Director, as its Chairman.⁷⁷

- b) The Committee shall have the following functions:
 - b.1) review and monitor the structure, size and composition of the Board and make recommendations to ensure compliance with applicable laws, rules and regulations as well as the Corporation's By-laws and this Manual;⁷⁸
 - b.2) install and maintain a process to ensure that all Directors to be nominated for election at the next Annual General Stockholders' Meeting have the qualifications and none of the disqualifications stated above;
 - b.3) 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;⁷⁹
 - b.4) Review and evaluate the qualifications of persons nominated to positions which require appointment by the Board, and provide guidance and advice as necessary for appointments by the Chairman or President to positions below Managing Director;⁸⁰

⁷⁶ ACGS, E.2.11.

⁷⁷ ACGS, E.2.12.

⁷⁸ Updated Charter of the Nomination Committee, Section 2.1.

⁷⁹ ACGS, E.4.6; Updated Charter of the Nomination Committee, Section 2.2.

⁸⁰ Updated Charter of the Nomination Committee.

- b.5) Review succession plans for members of the Board and senior executives (from group heads to the Chief Executive Officer);⁸¹
- b.6) Assess the effectiveness of the Board's processes and procedures in the election or replacement of Board members⁸² and in appointing officers or advisors, and develop, update and recommend to the Board policies for considering nominees for Directors, officers or advisors; and
- b.7) Perform such other duties and responsibilities that may be 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.⁸³

- c) In evaluating nominations to the Board, the Committee shall observe the process and criteria provided in its Charter, which are aligned with the Corporation's vision, mission and corporate strategy.⁸⁴
- d) The Committee shall hold meetings at least twice a year at a time and place determined by its Chairman, with further meetings to occur when deemed necessary or desirable by the Committee or its Chairman.⁸⁵

2.3 **Personnel and Compensation Committee**

- a) The Personnel and Compensation Committee shall be composed of at least three (3) members, one of whom shall be an Independent Director⁸⁶. The Board may from time to time increase the membership of the Committee, and appoint additional members therein, who may or may not be Directors.
- b) The Committee shall have the following duties and responsibilities:

⁸¹ Updated Charter of the Nomination Committee.

⁸² SEC Revised Code of Corporate Governance, Article 3 (K)(ii)(a).

⁸³ Updated Charter of the Nomination Committee.

⁸⁴ ACGS, E.3.9, E.3.10 and E.2.2 (B).

⁸⁵ ACGS, E.2.14.

⁸⁶ SEC Memorandum Circular No. 2, series of 2002, requires the presence of an Independent Director in the Compensation Committee. This section is lifted verbatim from the SEC Model.

- b.1) 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.2) Review, at least annually, the performance of each of the Chairman of the Board, the Chief Executive Officer (CEO), the President and Chief Operation Officer (COO) and measure such performance against each of his goals and objectives pursuant to the Corporation's plans and determine his or her compensation for approval of the Board;
- b.3) Review the structure and competitiveness of the Corporation's executive officer compensation programs considering the following factors: (i) to the attraction and retention of executive officers; (ii) the motivation of executive officers to achieve the Corporation's business objectives; and (iii) the alignment of the interests of executive officers with the long-term interests of the Corporation's shareholders and other stakeholders;
- b.4) Develop and periodically review a form on Full Business Interest Disclosure, 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;
- b.5) Provide in 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;
- b.6) Periodically review the existing Human Resources Development or Personnel Handbook, to strengthen provisions on 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.

No member of the 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, and at least one of whom shall be an independent director. The independent director shall chair the Committee and shall be responsible for ensuring the effective interaction among the Committee members, with management, and the internal and external auditors. At least one member of the Committee shall be a member of the Risk Management and Related Party Transactions Committee.⁸⁷ Each member shall have an adequate understanding of accounting and auditing principles in general and of the Corporation's business, including the financial management systems and environment in particular.
- b) The Audit Committee is expected, through the provision of checks and balances, support the corporate governance process.⁸⁸ It shall have the following particular duties and responsibilities:
 - b.1) Regularly report to the Board of Directors about Committee activities and issues that arise with respect to the quality or integrity of the Company's financial statement, the effectiveness of the system of internal controls, the performance and independence of the Company's external auditors, the performance of the internal audit function, and the Company's compliance with legal, regulatory or corporate governance requirements;
 - b.2) Highlight to the Board any serious concerns over the design or operating effectiveness of internal controls that may have a material impact on the financial statements;
 - b.3) For any awareness or knowledge of any suspected fraud or irregularity, or suspected infringement of any laws or regulations of any regulatory authority in the Philippines, which has or is likely to have a material impact on the Company's operating results or financial position, the Audit

⁸⁷ Charter of the Audit Committee, dated March 10, 2014.

⁸⁸ Charter of the Audit Committee, dated March 10, 2014.

Committee must discuss such matter with the independent auditor, and, at an appropriate time, report the matter to the Board;

- b.4) Provide an open avenue of communication between internal audit, the independent auditors, management, and the Board of Director;
- b.5) Report annually to the Board of Directors, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by law, including approval of non-audit services. Confirm annually that all responsibilities outline in this Charter have been carried out;
- b.6) Review any other reports the Company issues that relate to Committee responsibilities;
- b.7) Review and assess the adequacy of the Audit Committee Charter at least annually, requesting Board of Directors' approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation;
- b.8) Perform other activities related to this Charter as requested by the Board of Directors;
- b.9) The Committee is empowered to investigate any matter brought to his attention with full access to all records, books of accounts, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose;
- b.10) The Committee's oversight function on the financial reporting and disclosures of the Corporation includes:
 - i) Review the quarterly, half-year and annual financial statements before submission to the Board, focusing on 1) impact of new accounting standards and interpretation, 2) changes in accounting policies and practices, 3) reasonableness of estimates, assumptions and judgments, 4) alternative accounting treatments and major judgmental areas, 5) significant adjustments resulting

from the audit, 6) unusual or complex transactions including all related party transactions, 7) going concern assumptions, and 8) compliance with accounting standards, and compliance with tax, legal and stock exchange requirements;

- ii) Communication with legal counsel covering litigation, claims, contingencies or other significant legal issues that impact the financial statements, if applicable.
- iii) Review of financial statements and all related disclosures and reports certified by the Chief Financial Officer and released to the public and/or submitted to the SEC and for compliance with both the internal financial management;
- iv) Review and approval of management representation letter before submission to external auditor.

b.11) The Committee's oversight function on management and internal audit of the Corporation includes:

- i) Review and approve the Internal Audit Charter and subsequent revisions thereto.
- ii) Set up the Internal Audit Department, including the qualification criteria and appointment of the Chief Internal Auditor. The Chief Internal Auditor shall functionally report to the Committee and administratively to the President and Chief Operating Officer or his designate. The Committee, having appointed the Chief Internal Auditor, shall also concur in his/her replacement the re-assignment or dismissal.
- iii) Ensure that the Internal Auditors have free and full access to all Company'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.

- iv) Review and approve of the Annual Internal Work Plan and all deviations therefrom, and ensure that internal audit examinations cover the evaluation of adequacy and effectiveness of controls encompassing the Company's governance, operations, information systems, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules and regulations.

The Committee shall also ensure that audit resources are reasonably allocated to the areas of highest risk and ensure that the Annual Internal Audit Plan is in conformity with the objectives of the Corporation.

- v) Review and approve any outsourcing of the internal audit function.
- vi) Review of reports of the internal auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.
- vii) Review of Internal Audit's periodic reports, including the Annual Report.
- viii) Evaluate the performance of the Internal Audit Department and communication/discussion of such inputs with the President and Chief Operating Officer or his designate who shall then translate these into a performance appraisal applicable to the Chief Internal Auditor and the Internal Auditors taken as a whole.
- ix. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.

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

b.12) The Committee's oversight function on external audit of the Corporation includes:

- i) Review the performance and recommend the appointment, retention or discharge of external auditors, including the fixing of their remuneration;
- ii) Review and pre-approve the Independent Auditors' plans and ascertain the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit and their compliance with auditing standards. The Committee shall discuss with the Independent Auditors, before the audit commences, the nature and scope of the audit, and ensure cooperation when more than one professional service firm is needed.
- iii. Monitor the coordination of efforts between the external and internal auditors. The Committee shall ensure that the internal and external auditors act independently from each other.
- iv. Review of the reports of the external auditors, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control, governance and compliance issues.
- v. 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 year-end financial statements, and 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 both audit and non-audit work of external auditor shall be disclosed in the annual report.
- vi. Ensure that the external auditor has unrestricted access to all records, properties and personnel to enable performance of the required audit.

- vii. Review with the external auditor any disagreements, problems or difficulties, including any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management.
 - viii. Review of the external auditor's evaluation of internal accounting controls.
- b.13) The Committee's oversight function on risk management and internal controls of the Corporation includes:
- i. Ensure that a review of the internal auditor's evaluation of the effectiveness of the Company's internal controls, including financial, operational, information technology and compliance controls and, risk management is conducted annually.
 - ii. Coordinate with the Risk Management and Related Party Transactions Committee for the review of financial statement, corporate governance, operational, legal and other related risks.
 - iii. Discuss with management the major risk exposures and the steps management has taken to monitor and control such exposures, including risk assessment and risk management processes, policies, controls and governance processes. Review the Company's procedures in promoting risk awareness in the organization.
 - iv. Review crisis management, business continuity and disaster recovery plan and results of the annual testing.
 - v. Review the process for communicating the code of conduct and ethics policy to Company personnel, and for monitoring the compliance therewith, as well as compliance to all applicable laws and regulations pursuant to which the Company conducts its operations and business activities.

- vi. Review internal control framework implemented by Management for fraud prevention and detection.

On an annual basis, Management, together with internal audit, shall assess the effectiveness of the Company's fraud framework and present the results of its assessment to the Committee, together with proposed improvement on the fraud policies and controls to be adopted to address any gaps noted from the review.

The Committee shall also be provided by Management with reports on all cases of suspected and actual frauds and breaches of laws and regulations on a quarterly basis or more frequently, as necessary.

- vii. Consider and discuss with management, the internal auditors, and the external auditors, the major issues as to the adequacy and effectiveness of the Company's internal control system, including internal financial controls, operational and compliance controls, information technology security and controls, and any special audit steps adopted in light of material control deficiencies.

- viii. For significant control weaknesses identified, the Committee may request Management to explain the impact and the actions taken to rectify the identified control weaknesses.

- c) The Committee shall meet at least quarterly. Preferably, the quarterly meetings will be held prior to the meeting of the Board of Directors. In cases when there is a need for special meetings to take up any critical items that would need approval in between the quarterly meetings, it shall be up to the Chairman of the Committee to either call for a special meeting or just allow the routing of the covering paper.

2.5 Finance Committee

- a) The Finance Committee shall be composed of such number of members as the Board may designate but in no case less than (3) members majority of who shall be existing Board members. The Board shall have the authority at any time to remove individuals from the Committee. The Chairpersons of the Audit Committee and the Finance Committee shall not sit as members in both committees.

b) The Committee shall carry out the following duties, in each case in line with the Board's policies and directives:

b.1) The Committee shall review the company's capital structure strategies. The Committee shall also review and approve the Corporation's dividend policy and recommend dividend actions to the Board of Directors.

b.2) The Committee shall review the financial terms of mergers, acquisitions, or other strategic investments, as well as divestitures of any material operations of the Company, and make appropriate recommendations to the Board of Directors.

b.3) The Committee shall have general oversight responsibility over the Corporation's Treasury activities. The Committee shall review and approve changes in Treasury Policies, including:

- i) Policies with respect to cash flow management;
- ii) Policies with respect to investment of the company's cash, and
- iii) Policies with respect to financial risk management, including the use of derivatives.

The Finance Committee shall be responsible for reviewing and evaluating the financial affairs of the Corporation from time to time and carry out such other duties as may be delegated to it by the Board of Directors from time to time.

c) The Committee shall meet at least four times a year, or more frequently, as needed.

2.6 Committee of Inspectors of Proxies and Ballots

a) The Committee of Inspectors of Proxies and Ballots shall be composed of three (3) members who need not be stockholders. The Board may change the number and the composition of the Committee as it may deem necessary.⁸⁹ The Proxy Validation Committee shall be guided by existing laws, and the SEC rules and regulations regarding proxies. The term of office of the Committee members shall

⁸⁹ Charter of the Committee of Inspectors of Proxies and Ballots, Section 1.

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.⁹⁰

- b) The Committee shall have the following powers, duties and responsibilities:
 - b.1) Validate the proxies submitted by the stockholders at least five (5) working days prior to date of the stockholders' meeting⁹¹ and submit the Proxy Validation Summary to the Office of the Corporate Secretary. The Committee shall only consider proxies submitted not later than seven (7) working days prior to the date of the stockholders' meeting;⁹²
 - b.2) Count and tabulate the votes cast at the Corporation's stockholders' meeting, and submit the results of the tabulation to an independent party of inspectors for validation;⁹³ The Committee shall cause the results of the voted to be posted in the Corporation's website in the next working day following the holding of the annual meeting of the stockholders.⁹⁴
 - b.3) Perform such other duties and functions as may be delegated by the Board from time to time.

2.7 Risk Management and Related Party Transactions Committee⁹⁵

- a) The Committee shall be comprised of at least three (3) members of the Board, majority of whom shall be Independent Directors of the Corporation. The Board shall designate one member, who must be an Independent Director, to serve as the Committee Chairman. The Board shall appoint the Committee members at its annual organizational meeting. Membership shall be reviewed annually, subject to the approval of the Board.⁹⁶
- b) The Committee shall have the following authority, roles and responsibilities:⁹⁷

⁹⁰ By-Laws.

⁹¹ By-Laws, Article III, Section 6.

⁹² By-Laws, Article III, Section 6.

⁹³ ACGS, A.3.16.

⁹⁴ ACGS, A.3.17.

⁹⁵ ACGS, E.5.1 (B).

⁹⁶ Charter of the Risk Management and Related Party Transactions Committee, Part B.

⁹⁷ Charter of the Risk Management and Related Party Transactions Committee, Part C.

- b.1) Promote an open discussion regarding risks faced by the Corporation, as well as risks faced by its subsidiaries that may have potential impact on the Corporation's operations, and ensure that risk awareness culture is pervasive throughout the organization.
- b.2) Review and discuss with Management the Corporation's risk governance structure and adequacy of policies and processes for risk identification, assessment and mitigation.
- b.3) Review and recommend to the Management the Corporation's levels of risk appetite and risk tolerance, and risk exposure allocation for approval by the Board of Directors.
- b.4) Review the Corporation's risk profile on an ongoing basis and re-evaluate the likelihood of occurrence, severity of impact of risk exposures, and any mitigating measures affecting those risks.
- b.5) Monitor the implementation of the Corporation's risk mitigation plans and other risk management activities with the assistance of the risk management function.
- b.6) Review and discuss risk management-related reports and issues raised by the Management, internal auditors, external auditors, legal counsel and regulators that impact the Corporation's risk management framework.
- b.7) Review disclosures regarding risk contained in the Corporation's Annual Report and other publicly-issued statements.
- b.8) Review the objectivity, effectiveness and efficiency of the Corporation's risk management function in the context of the Corporation's size, scale, complexity and scope of operations.
- b.9) Secure independent expert advice on risk management matters where considered necessary or desirable.

- b.10) In coordination with the Audit Committee, ensure that the Corporation's internal audit work plan is aligned with risk management activities and that the internal control system considers all risks identified in the risk assessment process.
 - b.11) Determine the advisability of, and review and evaluate the terms and conditions of any material or significant related party transactions (RPTs) and their required reporting disclosures.
 - b.12) Perform such other activities as may be requested by the Board.
- c) The Committee shall meet at least twice a year, or more frequently as needed. All meetings shall be presided by the Committee Chairman and attended by all committee members, whether in person or via teleconference or videoconference. Meetings shall not proceed in the absence of a quorum; that is, more than half of the total number of committee members.

Separate executive sessions may be conducted by the Committee with the Chief Risk Officer, Chief Finance Officer, Chief Internal Auditor, other members of the Management team and/or external auditors, to foster open communication and discuss any matter that the Committee believes as needed to be discussed in private.

The Committee shall also hold additional meetings for review of RPTs as needed. Meetings may, at the discretion of the Committee, include members of the Company's management, legal counsel and such other persons as the Committee of its Chairman may deem fit.

Minutes of the Committee meeting shall be recorded and maintained by the Group Risk Management Unit and presented to the Committee at the next meeting for approval.

In addition to the regular meetings, the Committee shall also construct and agree on an annual calendar, which will lay down the schedule of activities for the year. This shall provide a systematic guide for the discharge of the Committee's

responsibilities. Accordingly, the Chief Risk Officer shall ensure that the schedule is followed as planned.⁹⁸

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.⁹⁹ 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 shall inform the Board regularly, promptly and comprehensively about any issues concerning the Corporation's strategy, risk management and compliance.¹⁰⁰ Management shall likewise regularly update the Board of the implementation of the Corporation's strategy and explain variances from the approved plans and targets.
- c) Management shall formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

⁹⁸ Charter of the Risk Management and Related Party Transactions Committee, Part D.

⁹⁹ Berlin Initiative German Code of Corporate Governance.

¹⁰⁰ SEC Memorandum Circular No. 2, series of 2002.

- c.1) The extent of its responsibility in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- c.2) 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 should be maintained;
- c.3) On the basis of the approved audit plans, internal audit examination should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets and compliance with contracts, laws, rules, and regulations;
- c.4) The Corporation should consistently comply with the financial reporting requirements of the Commission;
- c.5) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partners of the external auditing firm assigned to the Corporation.

2 Executive Officers of the Corporation

The Executive Officers of the Corporation are the Chairman, the Vice-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.¹⁰¹ In addition:

- a) The Board of Directors shall appoint (from time to time) one or more Senior Managing Directors and Managing Directors, and such other officers, agents and employees as provided for in the Corporation's By-Laws.¹⁰²
- 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.

¹⁰¹ By-Laws, Article IV, Section 8d.

¹⁰² By-Laws, Article IV, Section 8d.

- c) The Board of Directors may appoint a Council or Board of Advisors composed of persons of integrity and reputation and who have distinguished themselves in the areas of business, industry, government and law.
- 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**

a.1) The Chairman of the Board shall have the following powers:

- i) To preside at all of stockholders’ meetings and meetings of the Board; and
- ii) To exercise such other powers which are given him in the By-laws.¹⁰³

a.2) He shall have the following specific duties and responsibilities:

- 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.¹⁰⁴

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

¹⁰³ By-laws, Article IV, Sec. 10.

¹⁰⁴ SEC Memorandum Circular No.2, series of 2002.

b) Vice-Chairman

In the absence of the Chairman of the Board, the Vice-Chairman shall preside at meetings of the Board.¹⁰⁵

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

- c.1) have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers;
- c.2) see that all orders and resolutions of the Board of Directors are carried into effect;
- c.3) 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;
- c.4) 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:

- d.1) 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;
- d.2) regularly and at least every quarter render to the President or to the Board an account of the fund condition of the Corporation and of all his transactions as such;
- d.3) ensure funds availability on a timely basis and at the most economical means;

¹⁰⁵ By-Laws, Article IV, Section 10.

- d.4) optimize yields in temporary excess funds;
- d.5) provide relevant and timely capital market information;
- d.6) 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 the appointed by the Board of Directors. The CFO who may also be the Treasurer of the Corporation shall be responsible for the following:

- e.1) 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;
- e.2) 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;
- e.3) 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;
- e.4) 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. He is expected to work fairly and objectively with the Board, Management, stockholders and other stakeholders¹⁰⁶ Considering his varied functions and responsibilities, he must possess organizational and interpersonal skills, and

¹⁰⁶ SEC Memorandum Circular No. 9, series of 2014.

the legal skills of a chief legal officer. He must also have some financial and accounting knowledge.¹⁰⁷

The Corporate Secretary shall have the following functions:¹⁰⁸

- f.1) serve as an adviser to the Directors on their responsibilities and obligations;
- f.2) 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;
- f.3) keep in safe custody the seal of the Corporation and affix it to any instrument requiring the same;
- f.4) record all transfers of stock and cancellations and keep all stock certificates transferred, likewise, keep a list in alphabetical order of all stockholders of the Corporation and of their residences and the shares owned by each;
- f.5) attend to the giving and serving of notices of Board and shareholder meetings;
- f.6) be fully informed and be part of the scheduling process of other activities of the Board;
- f.7) 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;
- f.8) oversee the adequate flow of information to the Board prior to meetings;
- f.9) ensure fulfillment of disclosure requirements to the Securities and Exchange Commission and the Philippine Stock Exchange.

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.

¹⁰⁷ SEC Memorandum Circular No. 2, series of 2002; AGCS, E.3.8.

¹⁰⁸ SEC Memorandum Circular No. 2, series of 2002; SEC Model; By-laws, Article IV, Sec. 18; ACGS, E.3.7.

ARTICLE IV

GOVERNANCE POLICY ON CONFLICT OF INTEREST

Directors, officers and employees shall always advance the interest of the Corporation over their personal interests. They are required to be loyal to the organization so much so that they may not directly or indirectly take undue advantage of their position in the Corporation. They must promote the common interest of all shareholders and other stakeholders, and the Corporation without regard to their own personal interests.¹⁰⁹

- a) A conflict of interest exists when a Director, officer or employee 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. Acquires or is attempting to acquire for himself a business opportunity which should belong to the Corporation;
 - iv. Accepts gifts or invitations of any form from the supplier, customer or business partner of the Corporation, or from any third person or entity with existing or intended business dealings with Corporation, except when the gift or invitation is directly attributable to purely familial or personal relationships, only of nominal value, a simple promotional item or is part of the supplier's public relations program or part of business meetings or discussions;
 - v. Engages in a business or activity which competes with or works contrary to the best interests of the Corporation.
 - vi. Uses material company information of which they may have knowledge and/or access by reason of their office in, or employment with, the Corporation to their personal advantage or the advantage of any third party to the prejudice of the Corporation;
- b) If an actual or potential conflict of interest should arise on the part of Directors, the concerned Director shall not participate in the discussion of, and vote on, the matter where he is in conflict of interest¹¹⁰. A Director who has a continuing conflict of interest of a

¹⁰⁹ Canlas' Handbook on Stock, Stockholders and Directors

¹¹⁰ ACGS, B.4.3.

material nature should either resign or, if the Board deems appropriate, be removed from the Board.

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 present¹¹¹:

- c.1) 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;
- c.2) The vote of such Director was not necessary for the approval of the contract;
- c.3) The contract is fair and reasonable under the circumstances;
- c.4) 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.¹¹²

e) Directors, officers and employees who have personal or pecuniary interest on any enterprise with which the Corporation has an existing or intended transaction shall fully disclose the relevant facts of the situation to the Chairman of the Board in the case of the Directors, President and CEO, to the President in case of the Managing Directors, and to the Group Head and Unit Heads in the case of employees. All disclosures shall be submitted to the Managing Director for Strategic Human Resources. Any information disclosed under this rule shall be treated confidential except to the extent necessary to evaluate the situation and pre-empt the conflict of interest. The disclosure requirement

¹¹¹ Corporation Code, Section 32.

¹¹² Corporation Code, Section 34.

provided above shall apply to transactions between the Corporation and any enterprise owned by, or in which there is pecuniary interest in the part of, any family or close personal relations of the Directors, officers and employees;¹¹³

- f) When the gift does not fall under any of the conditions set on item a.iv above, the Director, officer or employee concerned are encouraged to turn over the gift to SHR for inclusion in the Corporation's Christmas party raffle;¹¹⁴
- g) Directors, officers and employees must immediately report any offer or gift of any value given to them or their immediate family with a view to get favors or to influence business recommendations, proposals or decisions affecting the Corporation or any of its related companies. The report shall be made to the Chairman of the Board in the case of the Directors, President and CEO, to the President in case of the Managing Directors, and to the Group Head and Unit Heads in the case of employees. All disclosures shall be submitted to the Managing Director for Strategic Human Resources;¹¹⁵
- h) The foregoing is without prejudice to the Corporation's existing Code of Conduct and Ethics for Directors, officers and employees.

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, 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

¹¹³ Code of Conduct and Ethics.

¹¹⁴ Code of Conduct and Ethics.

¹¹⁵ Code of Conduct and Ethics.

and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

- b) The Internal Audit Group performs its auditing functions faithfully by maintaining independence from the management and controlling shareholders.
- c) The Internal Audit Group shall be headed by a 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 Audit Group governs its work in adherence to The Institute of Internal Auditors' "Code of Ethics" and the Corporation's Code of Conduct and Ethics. The Internal also conducts its activities in accordance with the International Standards for the Professional Practice of Internal Auditors and guided by the COSO framework of internal control. 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.¹¹⁶
- e) The Internal Audit Group has the following specific duties and responsibilities:
 - e.1) Assists the Board and the Audit Committee in discharging its governance responsibility;
 - e.2) Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the company's strategy, objectives and goals to be met;
 - e.3) Reports risk management issues and internal controls deficiencies identified directly to the Audit Committee and provides recommendations to improve the company's operations, in terms of both efficient and effective performance;
 - e.4) Evaluates information security and associated risk exposures;
 - e.5) Evaluates regulatory compliance program with consultation from legal counsel and other relevant units or external advisors, as necessary;

¹¹⁶ SEC Memorandum Circular No. 2, except for the requirement of being a CPA.

- e.6) Evaluates the company's readiness in case of business interruption;
- e.7) Maintains open communication with management and the Audit Committee;
- e.8) Teams with other internal and external resources as appropriate for assurance and advisory work;
- e.9) Engages in continuous education and staff development; and
- e.10) Provides support to the company's anti-fraud and whistleblower programs.

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.¹¹⁷
- b) The External Auditor shall –
 - b.1) 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;
 - b.2) check whether any fact conflicts with the audit results in the information disclosed regularly with the audited financial statements, and demand correction, if necessary;
 - b.3) attend the annual stockholders meeting and answer any questions on audit reports and on themselves, their work and their remuneration;
 - b.4) perform such other functions as may be approved by the Board or the Audit Committee 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 rotated every five (5) years or earlier, or the handling partner shall be changed.

¹¹⁷ ACGS, E.2.30.

- 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 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 are incorrect or incomplete, he shall discuss his views with Management and Audit Committee and present his views in said reports.¹¹⁸

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 Managing Director 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 penalty for violation thereof for further review and approval of the Board;
- d) Issue an Annual Corporate Governance Report (ACGR) that is duly signed by the Chairman and Chief Executive Officer, the President and Chief Operating Officer, and two Independent Directors of the Company every five (5) years,¹¹⁹

¹¹⁸ SEC Memorandum Circular No. 2, series 2002.

¹¹⁹ SEC Memorandum Circular No. 5, series of 2013 and SEC Memorandum Circular No. 12, series of 2014.

- e) Issue a Consolidated Changes in the ACGR that is duly approved by the Board of Directors yearly.¹²⁰
- f) 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-C) or on a separate filing;
- g) Identify, monitor and control compliance risks;
- h) Determine violations of this Manual and create a system for according due notice, hearing, and due process for dealing with violations of the Manual;
- i) 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.¹²¹

ARTICLE VI

DISCLOSURE AND TRANSPARENCY

The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets.

It is therefore essential that all material information about the corporation which could adversely affect its viability or the interest of the stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or

¹²⁰ SEC Memorandum Circular No. 12, series of 2014.

¹²¹ SEC Model and SEC Memorandum Circular No. 2

disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.¹²²

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 submission to the Commission for the interest of its stockholders and other stakeholders.¹²³

ARTICLE VII

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:
 - a.1) 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;
 - a.2) Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
 - a.3) Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
 - a.4) Maintain a sound system of internal control to safeguard stockholders' and other stakeholders'¹²⁴ investment and the Corporation's assets;
 - a.5) Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and

¹²²SEC Revised Code of Corporate Governance, Article 8.

¹²³SEC Memorandum Circular No. 9, series of 2014.

¹²⁴ SEC Memorandum Circular No. 9, series of 2014.

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;

- a.6) 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.

2. The Investor Relations Function

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

- i. Creation and implementation of an investor relations program that reaches out to all shareholders and fully informs them of corporate activities;
- ii. Formulation of a clear policy on communicating or relating relevant information to Corporation stockholders and other stakeholders¹²⁵ and to the broader investor community accurately, effectively and sufficiently;
- iii. Preparation of disclosure documents to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange, and
- iv. Dissemination of this Manual and the conduct of an orientation program for the Board and Management.

The Investor Relations Division shall report to the Head of Corporate Strategy who shall act as the Chief Information Officer of the Corporation for purposes of reporting and disclosures to the SEC and PSE.

¹²⁵ SEC Memorandum Circular No. 9, series of 2014.

3. Communication of this Manual

This Manual shall be submitted to and made available at the Securities and Exchange Commission. It shall also be available for inspection by any stockholder and other stakeholders¹²⁶ of the Corporation at its principal office during reasonable hours on a business day.

ARTICLE VIII

STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS¹²⁷

1. Shareholder Rights

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

a) Voting Right

All shareholders, including minority shareholders, 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.

¹²⁶ SEC Memorandum Circular No. 9, series of 2014.

¹²⁷ SEC Memorandum Circular No. 2, series of 2002.

c) **Right of Inspection**

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

d) **Right to Information**

Upon request and for a legitimate purpose, a shareholder shall be provided 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 a special reserve for probable contingencies.

f) **Appraisal Right**

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

- f.1) 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;
- f.2) 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
- f.3) 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 provide effective 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 IX

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, and employees, 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 X

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 XI

ADOPTION AND EFFECTIVITY

This Manual was adopted by the Board of Directors of the Corporation on AUGUST 22, 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.