

To be an indispensable partner in the journey of everyone  
whose life we touch.



31 July 2014

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Ayala Ave., Makati City  
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Mmes:

In compliance with SEC Memorandum Circular No. 9, Series of 2014, please find attached Amended Revised Corporate Governance Manual.

We trust that you find the foregoing in order.

Best regards.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Socorro Ermac Cabreros".

**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

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## REVISED CORPORATE GOVERNANCE MANUAL P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.

The Board of Directors, officers, management, executives and employees of **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.** (the "Corporation") hereby commit themselves to comply and observe the fundamental principles of sound corporate governance and best practices contained in this Revised Corporate Governance Manual ("Revised CGM") which are necessary components in the attainment of its corporate goals and enhancing the value of the Corporation to all its stakeholders.

The Revised CGM is adopted pursuant to Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2009 (Revised Code of Corporate Governance) issued on July 15, 2009. It supersedes the Corporation's Corporate Governance Manual adopted to SEC Memorandum Circular No. 2, Series of 2002 (Code of Corporate Governance) issued on April 5, 2002.

### DECLARATION OF CORPORATE PRINCIPLES

The Corporation adheres to the highest standards and principles of Integrity, Excellence, Service, Innovation, Teamwork and Stewardship to serve the best interest of its stakeholders.

The purpose of this Revised CGM is to establish the principles of good corporate governance for the entire Corporation. The best practices are hereby incorporated to further guide the Board of Directors, Management, employees and shareholders in reaching its corporate goals.

As the Corporation progresses, the Revised CGM shall be kept under constant review and revision to keep up with the recent and emerging standards of good corporate governance.

## CORPORATE GOVERNANCE RULES AND PRINCIPLES

### Article 1: Definition of Terms

- a) **Corporate Governance** - 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;
- b) **Board of Directors** - the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
- c) **Exchange** - the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- d) **Management** - the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- e) **Independent director** - a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;
- f) **Executive director** - a director who is also the head of a department or unit of the corporation or performs any work related to its operation;
- g) **Non-Executive director** - a director who is not the head of a department or unit of the corporation nor performs any work related to its operation;
- h) **Non-audit work** - the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;
- i) **Internal Control** - the system established by the Board of Directors and Management for the accomplishment of the corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules;

- j) **Internal Control System** - the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed;
- k) **Internal audit** - an independent and objective assurance activity designed to add value to and improve the corporation's operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;
- l) **Internal audit department** - a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation's operation;
- m) **Internal Auditor** - the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

## **Article 2: BOARD GOVERNANCE**

The Board of Directors (the "Board") is primarily responsible for the governance of the corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

### **Section 1.0 Composition of the Board**

- 1.1 The Board of Directors shall be composed of eleven (11) members who shall be elected by the stockholders at a regular or special meeting in accordance with the Amended By-Laws of the Corporation.
- 1.2 There shall be at least two (2) independent directors who shall be members of the Board of Directors. The independent directors shall constitute twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2).

## **Section 2.0 Independent Directors**

### **2.1 Qualification of Independent Directors**

As a publicly-listed Corporation, the Corporation shall conform with the requirement to have such number of Independent Directors as may be required by law, possessed with such qualifications as may be prescribed by law.

An “Independent Director” is a person who, apart from his fees and shareholdings, which shareholdings does not exceed two percent (2%) of the shares of the Corporation and/or its related companies or any of its substantial shareholders, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgment in carrying out his responsibilities as a director in the Company and includes, among others, any person 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);
- (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, relatives includes spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
- (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;
- (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;
- (e) Is not retained as professional adviser by 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; and
- (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 Corporation of which he is

a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial or insignificant.

When used in relation to a Corporation subject to the requirements above, "related Corporation" shall mean another Corporation which is (i) its holding Corporation, (ii) its subsidiary, or (iii) a subsidiary of its holding Corporation; and "substantial shareholder" shall mean any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

The Independent Director shall have the following qualifications:

- (a) He shall have at least one (1) share of stock of the Corporation;
- (b) He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;
- (c) He shall possess integrity/probity; and
- (d) He shall be assiduous.

- 2.2** Independent directors should, as much as possible, be in attendance during board meetings to promote transparency. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one (1) independent director in all its meeting.

### **Section 3.0 Duties and Responsibilities of the Board**

#### **3.1 General Responsibility**

It is 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 interest of its stockholders and other stakeholders.

#### **3.2 Duties and Functions**

Corporate powers and governance of the entire Corporation shall be exercised, all business conducted and all properties of the Corporation controlled and held by the Board of Directors to be elected by and from among the stockholders.

The Director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability, integrity and fairness.

To ensure a high standard of best practice for the corporations, its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of , among others, the following duties and responsibilities:

- a. Foster the long term success of the corporation, and sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders;
- b. Establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the management's performance;
- c. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- d. Appoint competent, professional, honest and highly-motivated management officers and adopt an effective succession planning program for management;
- e. Identify the corporation's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.
- f. Provide sound strategic policies and guidelines to the corporation on major capital expenditures;
- g. Establish programs that can sustain its long-term viability and strength;
- h. Evaluate and monitor periodically the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance;
- i. Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices;
- j. Establish and maintain an investor relations program that will keep the stockholder informed of important developments in the corporation. If

feasible, the Corporation's CEO or CFO shall exercise oversight responsibility over this program;

- k. Identify the sectors in the community in which the corporation operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them;
- l. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness;
- m. Identify the key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability;
- n. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parents company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationship by members of the Board;
- o. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities;
- p. 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, including the regulatory authorities;
- q. From time to time, to make and change rules and regulations not inconsistent with this Manual for the management of the Corporation's business and affairs;
- r. To purchase, receive, take or otherwise acquire for and in the name of the Corporation, any and all properties, rights, or privileges, including securities and bonds of other Companies, for such consideration and upon such terms and conditions as the Board of Directors may deem proper or convenient;

- s. To invest the funds of the Corporation in other Companies or for purposes other than those for which the Corporation was organized, subject to such stockholders' approval as may be required by law;
- t. To incur such indebtedness as the Board of Directors may deem necessary, to issue evidence of indebtedness, including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such stockholders' approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties of the Corporation;
- u. To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including officers and directors of the Corporation;
- v. To prosecute, maintain, defend, compromise or abandon any lawsuit in which the Corporation or its officer are either plaintiffs or defendants in connection with the business of the Corporation;
- w. To select and appoint the Chief Executive Officer ("CEO"), Chief Operating Officer ("COO"), Chief Finance Officer ("CFO") and other senior officers of the Corporation. The executive officers shall have the requisite maturity, motivation, integrity, competence and professionalism necessary to effectively perform their duties and responsibilities to the Corporation. Adopt a professional development program for employees and officers.
- x. Provide strategies and general policies to ensure not only the survival, but the growth and success of the Corporation. It must periodically evaluate and monitor implementation of such strategies and policies, business plans and operating budgets as well as management's over-all performance to ensure optimum results.
- y. To delegate, from time to time, any of the powers of the Board of Directors which may lawfully be delegated in the course of the current business of the Corporation to any standing or special committee or to any officer or agent and to appoint any person to be agent of the Corporation with such powers and upon such terms as may be deemed fit;
- z. Establish a policy on communicating or relating with stockholders and other stakeholders of the Corporation through an effective investor relations program;

- aa. Meet at least once every quarter if monthly regular meetings are not possible. All such meetings should be duly minuted. Independent view are encouraged and given due consideration;
- bb. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations;
- cc. Appoint a Compliance Officer with a rank of at least vice-president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

### **3.2 CHAIRMAN OF THE BOARD**

The responsibilities of the Chairman in relation to the Board shall include the following:

- a. To ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;
- b. To supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the directors and Management; and
- c. To maintain qualitative and timely lines of communication and information between the Board and Management.

If the positions of Chairman and Chief Executive Officer (CEO) are not separate and matters for resolution of the Board involve the accountability of Management and there is a perceived conflict of interest in relation thereto, the Chairman must appoint a lead director from among the independent directors to temporarily preside in the meeting to ensure the independence of the Board.

### **3.3 Internal Controls of the Corporation**

- a. The internal controls of the Corporation consists of:
  - i. The Board which ensures that the Corporation is properly managed and effectively supervised;
  - ii. The Management that actively manages and operates the Corporation in a sound and prudent manner;

- iii. The organizational and procedural controls supported by effective management information reporting systems; and
  - iv. An independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, confidential information and compliance with laws, rules, regulations and contracts.
- b. The Board's internal control mechanisms for the Board's oversight responsibility may include:
- i. Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Corporation's organizational and operational controls;
  - ii. Selection and approval of a CEO who possesses the ability, competence, vision, integrity, experience and expertise essential for the position;
  - iii. Establishment by the Corporation's of an internal audit system that can reasonably assure the Board, Management, and stockholders that the Corporation's key organizational and operational controls are appropriate, adequate, effective and complied with;
  - iv. Selection and appointment of proposed senior management officers;
  - v. Ensuring the selection, appointment and retention of qualified and competent management;
  - vi. Review of the Corporation's personnel and human resource policies and sufficiency, conflict of interest situations, changes in the compensation plan for employees and succession plan for officers and management.
- c. The minimum internal control mechanisms for management's operational responsibility would center on the CEO, being ultimately accountable for the company's organizational procedural controls.

- d. The Corporation may have in place a comptroller or any other officer designated by the Board, or the Audit Committee through which the Board, senior management and stockholders may be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

### **3.4 Board Meetings and Quorum Requirement.**

- (a) Directors should attend meetings of the Board in person, or by use of modern technology through teleconference devices.
- (b) The Independent Directors should endeavor to attend all Board meetings. However, the absence of an independent director shall not affect the quorum requirements if he is duly notified of the meeting and fails to attend the same. Or if the independent director resigns or ceases to be an independent director pending the appointment of or election of his replacement.
- (c) The Corporation may at the end of every fiscal year, provide the Commission with a sworn certification that the foregoing requirement has been complied with. The said certification may be submitted with the Corporation's current report (SEC Form 17-1) or on a separate filing.

### **Section 4.0 Qualifications of Directors**

- a. A director of the Corporation must have at least one (1) share under his name in the corporate books. He must have all the qualifications and none of the disqualifications of a director.
- b. Majority of the members of the Board of Directors must be Filipino citizens and residents of the Republic of the Philippines.
- c. A director shall, before assuming office, attend a seminar on corporate governance conducted by a duly recognized private or government institution.

## Section 5.0 Disqualification of Director

### 5.1 Permanent Disqualification

A director must **not** have the following disqualifications:

- a. Any person convicted or adjudged guilty of any of the offenses or crimes specified below in a final and executory judgment, decree or order issued by a judicial or an administrative body having competent jurisdiction or the SEC:
  - i. An offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
  - ii. Any crime that:
    - 1) Involves the purchase or sale of securities, as defined in the securities, as defined in the Securities Regulation Code;
    - 2) Arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or
    - 3) Arises out of his fiduciary relationship with a bank, quasi bank, trust company, investment house, or an affiliated person of any of them;
  - iii. Having willfully violated, or willfully aided, abetted, counseled, induced, or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any law administrative by the SEC or BSP, or any of its rule, regulation or order;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of SEC or any court or administrative body of competent jurisdiction from:
  - 1) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;

- 2) acting as director, or officer of a bank, quasi-bank, trust company, investment house or investment company;
- 3) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub paragraphs 1 and 2 above;

The disqualification shall also apply if such person:

- 1) is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the SEC or BSP; or
  - 2) has otherwise been restrained to engage in any activity involving securities and banking; or
  - 3) is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the said organization;
- c. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in paragraphs (a) and (b) above;
  - d. Any person convicted by final 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;
  - e. Any person judicially declared to be insolvent.
  - f. Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation.

## **5.2 Temporary Disqualification**

- (a) A director may be temporarily disqualified from being a director in the Corporation for the following reasons:

- i. Refusal to disclose the extent of his business interest as may be required under the Securities Regulations Code and its implementing rules.
- ii. Habitual unexcused absences for more than fifty percent (50%) of the meetings, regular or special, of the Board of Directors during his term or any immediate preceding twelve (12) months.
- iii. Dismissal/termination from directorship in another listed corporation for irregularity, fraud or other valid causes. This disqualification shall be in effect until such person has cleared himself of any involvement in the alleged fraud, irregularity and other valid causes for termination or such cause that does not apply to the Corporation such as conflict of interest.
- iv. Being a director or officer or substantial stockholder of a Corporation or business that directly or indirectly in competition with the business of the Corporation, as determined by the Board.
- v. An independent director, who ceases to be an independent director as defined by law because of his employment in the Corporation or his ownership of more than 10% of the outstanding shares of the Corporation, shall cease to be an independent director in the Corporation.

## **Section 6.0 Duties and Responsibility of a Director**

A director's office is one of trust and confidence. A director should exercise leadership, prudence and integrity in directing the corporation towards sustained progress.

A director shall have the following duties and responsibilities:

- (a) A director owes to be obedient, loyal and diligent to the Corporation. Obedience imposes on the directors the obligation to act only within the corporate powers of the Corporation as defined under its Articles of Incorporation and By-laws, Corporation Code and all other applicable laws. Directors should manage the Corporation with diligence, care and prudence. They cannot be held liable for mistakes and errors in the exercise of their business judgment when they act in good faith and with due care and prudence.

- (b) A director has fiduciary relationship to the Corporation and its stockholders. His duty to be loyal requires him to act in the best interest of the Corporation, and prevents him from acquiring for himself a business opportunity which belongs to the Corporation.
- (c) The directors shall keep themselves sufficiently informed about the general condition of the business and manner in which it is being conducted, so that they may become aware of the difficulties and problems that must be met and solved by the Corporation.
- (d) A director must conduct fair business transactions for the Corporation and to ensure that the personal interest does not bias Board decisions.
- (e) A director must attend meetings regularly and devote time and attention necessary to properly discharge his duties and responsibilities.
- (f) A director must act judiciously and exercise independent judgment.
- (g) A director must have a working knowledge of the statutory and regulatory requirements that affect the corporation, including its articles of incorporation and by-laws, the rules and regulations of SEC and, where applicable, the requirements of relevant regulatory agencies.
- (h) A director must observe confidentiality of information.

#### **Section 7.0 Remuneration of Directors and Officers**

- (a) Levels of remuneration shall be sufficient to attract and retain the directors, if any, and officers need to run the Corporation successfully. A proportion of executive directors' or officers' remuneration may be structured so as to link rewards to corporate and individual performance.
- (b) The Board may establish a formal procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers.
- (c) The Corporation's annual reports, information, and proxy statements shall, in accordance with applicable disclosure regulations, include a

disclosure of all compensation, awarded to, earned by, paid to, or estimated to be paid to, directly to all individuals serving as the CEO or acting in a similar capacity during the last completed fiscal year, regardless of the compensation level and the Corporation's four (4) most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed year, consistent with the policies of the SEC.

## **Section 8.0 Board Committees**

The Board shall constitute the proper committees to assist it in good corporate governance

### **8.1 Executive Committee**

The Executive Committee shall be composed of at least three (3) members, at least three (3) of whom must be members of the Board of Directors.

The Executive Committee established in accordance with the By-laws may act by majority vote of all of its members, on matters within the competence of the Board, except as specifically limited by law or by the Board of Directors.

During every meeting of the Board of Directors, the Executive Committee shall report in summary form all matters acted upon by it, all of which matters shall be considered ratified unless otherwise expressly revoked.

### **8.2 Nomination Committee**

- (a) The Board shall form a Nomination Committee composed of at least three (3) members of the Board, one of whom must be an Independent Director.

The Nomination Committee shall review and evaluate the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board.

- (b) Nominations shall be received by the Nominations Committee through the Chairman of the Board of Directors (which nominations may be sent to such Chairman in care of the Secretary of the Corporation) as soon as the Board of Directors declares the positions open.

- (c) Each nomination shall set forth (i) the name, age, business address, if known, home address of each nominee, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stocks of the Corporation which are beneficially owned by each nominee, (iv) past and present positions held by each nominee in other corporations. In addition, the shareholder making such nomination shall promptly provide any other information reasonable requested by the Corporation.
- (d) The Nominations Committee shall recommend the qualified nominees for election and the Board, by a majority vote may, elect the rightful nominee.
- (e) The Board, by a vote of majority, may, in its discretion, determine and declare that a nomination was not made in accordance with the foregoing procedures, and/or that a nominee is disqualified for election as Director and if the Board should so determine the defective nomination and the nomination of a disqualified person shall be disregarded.
- (f) The decision of the Nomination Committee as to the nominees to the Board of Directors, once confirmed by the Board of Directors, shall be final and binding upon the shareholders and may no longer be raised during the stockholder's meeting.

### **8.3 Audit Committee**

- (a) The Audit Committee shall be composed of at least three (3) Board members, preferably with accounting and finance background, one of whom shall be an independent director and another should have related audit experience or adequate understanding at least of the Corporation's financial management systems and environment. The Chair of the Audit Committee should be an independent director.

It shall have the following functions:

- i Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations;
- ii Provide oversight over Management's activities in managing credit, market, liquidity, operational legal and other risks of the corporation. This functions includes regular receipt from

Management of information on risk exposures and risk management activities.

- iii Perform oversight functions over its internal and external auditors. It ensures that the internal and external auditors act independently from each other, and that both are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- iv Review the annual internal audit plan to ensure its conformity with the objective of the corporation. The plan includes audit scope, resources and budget necessary to implement it.
- v Prior to commencement of audit, discuss with the external auditor the nature, scope and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.
- vi Organize an internal audit department and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.
- vii Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security.
- viii Review the reports submitted by the internal and external auditors.
- ix Review the quarterly, half year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - 1.) Any change/s in accounting policies and practices;
  - 2.) Major judgmental areas;
  - 3.) Significant adjustments resulting from the audit;
  - 4.) Going Concern assumptions;
  - 5.) Compliance with accounting records;

6.) Compliance with tax, legal and regulatory requirements.

- x Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- xi Evaluate and determine the non-audit work, if any, of the external auditor and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report.
- xii Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.
- xiii Elevate to internal standards the accounting and auditing processes, practices and methodologies of the Corporation.

#### **8.4 Compensation Committee**

The Board may constitute a Compensation or Remuneration Committee which may be composed of at least three (3) members, one of whom should be an Independent Director.

The Compensation Committee should establish a formal and transparent procedure for developing a policy on executive 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.

## **Section 9.0 Chief Executive Officer (CEO)**

### **9.1 Duties and Responsibilities of the CEO**

The CEO shall be in charge of the management and administration of the business operations, affairs and properties of the Company. He shall ensure that all resolutions of the Board are carried into effect and see that the business and affairs of the Company are managed in a sound and prudent manner. He shall ensure reliability and integrity of financial and operational information and effectiveness, as well as, the efficiency of operations.

The Chief Executive Officer shall also perform the functions provided for by the By-laws of the Corporation.

The CEO shall report to the Board, from time to time, all matters within his knowledge in which the Company has material interest.

## **Section 10.0 Other Executive Officers**

The COO, CFO and other officers shall have the qualifications, duties and responsibilities specified in the By-laws of the Corporation, or as be specified or designated by the Board of Directors, or by the Chairman and CEO. All Officers of the Corporation shall familiarize themselves with and shall comply with their duties and responsibilities under this Manual.

## **Section 11.0 The Corporate Secretary**

The Corporate Secretary is an officer of the Company and is expected to observe the highest degree of professionalism, integrity and is expected to observe the highest degree of professionalism integrity and professionalism and shall have the qualifications, duties and responsibilities specified in the By-laws of the Corporation, or as may further be specified or designated by the Board of Directors.

### **11.1 Qualifications of the Corporate Secretary**

- a. The Corporate Secretary should be a resident Filipino citizen and of good moral character;
- b. He should have appropriate administrative and interpersonal skills.

### **11.2 Duties and Responsibilities of the Corporate Secretary**

- a. Be loyal to the mission, vision, and objective of the corporation;
- b. Work fairly and objectively with the Board, Management and stakeholders;
- c. Be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- d. Having a working knowledge of the operations of the Company;
- e. Informs the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- f. Attend all board meeting, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevents him from doing so and take all the minutes of the Board Meeting;
- g. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- h. If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer provided in this Code;
- i. The Corporate Secretary shall be part of the scheduling process of the different Board or stockholders meetings. He shall prepare a schedule of regular Board meetings for the current year in coordination with the Board. They should send notices to all Directors before each meeting.
- j. Serve as an adviser to the directors and assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations as directors of the Corporation;
- k. Monitor compliance with the provisions of this Manual. He shall serve as the liason officer with the SEC with respect to compliance with the SEC requirement and the Philippines Stocks Exchange (PSE), and shall regularly report his findings to the Board.
- l. Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Corporation. He shall ensure that Board procedures are being followed and applicable rules and regulations are complied with.

- m. Issue certification every January 30<sup>th</sup> of the year on the attendance of directors in meetings of the board of directors, countersigned by the Chairman of the Board pursuant to Memorandum Circular No.3, Series of 2007.
- n. work fairly and objectively with Board, Management, stockholders and other stakeholders.

## **SECTION 12.0 Compliance Officer**

### **12.1 Duties and Responsibilities of a Compliance Officer**

- a. To insure compliance and adherence to the principles and corporate practices herein contained, a Compliance Officer shall be appointed by the Chairman of the Board who shall directly report to the latter.

The Compliance Officer shall have the following duties:

1. Monitors the compliance in accordance with the provisions and requirement herein specified and provided in the Code and this CG Manual. If any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.
2. Represent and Appear in behalf of the Corporation before the Securities and Exchange Commission (SEC) as well as the Philippine Stock Exchange (PSE) for any matter pertaining to the disclosures of the Corporation and for whatever summons in relation to compliance with the Revised Code of Corporate Governance or such other circulars, rules and regulations issued in relation thereto or such other clarifications made by said bodies to the Corporation.
3. Determine and cite violations of this Manual and recommend penalty for review and approval by the Board of Directors.
4. Issue certification every January 30<sup>th</sup> of every year on the extent of the Corporation's compliance with this Manual for the completed year and if appropriate, further explain any deviation from the same.
5. Make all disclosures for and in behalf of the Corporation before the SEC and PSE in accordance with reportorial and disclosure requirements imposed by said bodies.

6. Identify, control and monitor compliance risks.
  - b. The appointment of the Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C and PSE. All correspondence related to his functions as such shall be addressed to said officer.

### **Section 13.0 External Auditor**

- 13.1** The Board after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC. At the regular stockholder's meeting, the external auditor of the Corporation for the ensuing year shall be appointed.
- 13.2** The external auditor shall undertake to an independent audit of the Company and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall examine, verify and report on the earnings and expenses of the Corporation. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non audit-work may be given to the external auditor provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.
- 13.3** If the external auditor believes that any statement made in an annual report, information statement or any report filed with the SEC and PSE during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said report.
- 13.4** The Corporation's external auditor should be rotated or the handling partner should be changed every five (5) years or earlier.
- 13.5** If the external auditor resigns, is dismissed or ceased to perform his services, the reason(s) for the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles and practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before his submission.

### **Section 14.0 Internal Auditor**

- 14.1** The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or an internal audit organization,

through which its Board, senior management and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

**14.2** The Internal Auditor should certify that the conduct of internal audit activities is in accordance with the International Standards for Professional Practice of Internal Auditing.

**14.3** The Internal Auditor should submit to the Audit Committee and Management, an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be deemed necessary or requested by the Board and Management.

### **Article 3. SUPPLY OF INFORMATION**

All directors should be provided with complete, adequate and timely information about matters to be taken up in their meetings and which would enable them to discharge their duties.

Management shall have an obligation to supply the Board with complete, adequate information in a timely manner. The board shall have separate and independent access to the senior management of the Corporation.

Directors shall also have a separate and independent access to the Corporate Secretary.

Directors should have a procedure for directors, either individually or as a group in the furtherance of their duties, to take independent professional advice concerning matters pending before the Board, if necessary, at the Corporation's expense.

### **Article 4. ACCOUNTABILITY AND AUDIT**

The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board. The Board should provide the shareholders with a fair, balanced and comprehensive assessment of the Corporation's performance position and prospects on a quarterly basis including interim and other reports that could adversely affect its business as well as reports to SEC and PSE that are required by the law. It is essential that Management should

provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to its stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedure on financial reporting and internal control should be in accordance with the following guidelines:

- i. The extent of its responsibility in the preparation of the financial statements of the Corporation, with corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- ii. 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;
- iii. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's financial reporting, 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;
- iv. The Corporation should consistently comply with the financial reporting requirements of the SEC.
- v. Present a fair assessment of the Corporation's financial position and prospects;
- vi. Explain the responsibility for preparing the accounts, for which there should be statement by the auditors about their reporting responsibilities;
- vii. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
- viii. Maintain a sound system of internal control to safeguard stakeholders' investment and the Corporation's assets;

**Article 5. STOCKHOLDER'S RIGHTS AND PROTECTION OF MINORITY STOCKHOLDER'S INTEREST**

The Board shall respect the rights of the stockholders as provided in the Corporation Code, namely:

**Section 1.0 Voting Rights**

- 1.1** Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code, and the by-laws.
- 1.2** Cumulative voting shall be allowed in the election of directors.
- 1.3** Although directors may be removed with or without cause, the Corporation Code prohibits removal without cause if it will deny minority shareholders representation in the Board.

**Section 2.0 Pre-emptive Rights**

All stockholders have pre-emptive rights to subscribe to new shares issued by the Corporation, except when the Corporation issues shares (a) to satisfy the conversion rights of convertible promissory notes, bonds, or other securities which may be issued by the Corporation with express right of conversion into shares of stock, or (b) to raise funds to redeem or pay such convertible promissory notes, bonds or other securities of the Corporation.

**Section 3.0 Power of Inspection**

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

**Section 4.0 Right to Information**

- 4.1** The Shareholders shall be provided, upon request, with 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, as may be required by law and applicable disclosure rules.

- 4.2 The minority shareholders have the same right of information as other shareholders of the Corporation. They should be granted the right to propose the holding of a meeting, and the right to propose the holding of a meeting, and the right to propose the items in the agenda of the meeting, provided the items are for legitimate business purposes, in accordance with law.

#### **Section 5.0 Right to Dividends**

Shareholders have the right to receive dividends subject to the discretion of the Board to declare such dividends. However, the Securities and Exchange Commission may direct the Corporation to declare dividends when its retained earnings is in excess of 100% of its paid-up capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

#### **Section 6.0 Appraisal Right**

Section 82 of the Corporation Code allows the exercise of the Shareholder's appraisal rights under the following circumstances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the right 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;
- b. 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
- c. In case of merger or consolidation.

#### **Section 7.0 Promotion of Shareholders' Rights**

The Board shall promote shareholders' rights in accordance with law, remove impediments to the exercise of shareholders rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective act on problems through appropriate mechanisms in accordance with law. They shall remove

excessive costs and other administrative or practical impediments to shareholders' participation in meetings and/or voting in person. The board shall allow the electronic filing and distribution of shareholder information necessary to make informed decisions as may be allowed by law.

## **Section 8.0 Right to Transparent and Fair Conduct of Stockholder's Meeting**

- 8.1** The Board should be transparent and fair in the conduct of the annual and special stockholder's meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in stockholder's favor.
- 8.2** It is the duty of the Board to promote the rights of stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.
- 8.3** The Board should take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make sound judgment on all matters brought to their attention for consideration or approval.
- 8.4** Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

## **Article 6. EVALUATION AND MONITORING SYSTEM**

### **Section 1.0 Dissemination and Compliance Process**

- 1.1** All directors and executives are tasked to ensure the thorough dissemination of this Revised CGM to all employees and related third parties and to likewise enjoin compliance in the process.
- 1.2** An adequate number of printed copies of this Revised CGM must be reproduced and distributed to each department of the Corporation.

- 1.3 Allocate funds for the purpose of conducting an orientation program or workshop to implement the Revised CGM.
- 1.4 The Board may establish an evaluation system to determine and measure compliance with this Revised CGM with criteria provided in this Revised CGM and other rules and regulations on good governance and provide for sanctions for breach of this Manual depending on gravity of the violation.
- 1.5 The establishment of such evaluation system, including the features thereof, may be disclosed in the annual report (SEC Form 17-A), or in such other appropriate form of report. The adoption of such performance evaluation system shall be covered by a Board resolution.
- 1.6 This manual shall be subject to periodic review as may be provided by the Board

#### **Article 7. 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 of interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings result, acquisition or disposition of assets, off-balance sheet transactions and direct and indirect remuneration of members of the Board and Management. All such information should be disclosed through SEC and PSE.

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

**Article 8.      COMMITMENTS TO GOOD CORPORATE GOVERNANCE**

The Corporation shall establish and implement their corporate governance rules in accordance with the Code. The rules shall be embodied in a manual that can be used as reference by the members of the Board and Management.

The Chairman of the Board shall be specifically tasked with the responsibility of ensuring adherence to the corporate governance code and practices.

The Corporation shall conduct information campaigns, orientation program or workshops on Corporate Governance under this Manual to its directors, officers and employees.

The Revised CGM shall be made available for inspection by any stockholder at reasonable hours on business days.

**Article 9.      APPLICABILITY TO SUBSIDIARIES**

Subsidiaries of the Corporation are encouraged to adopt their own Manual of Corporate Governance.

**Article 10.      QUALIFICATION**

Section 1.0      Nothing in this Manual shall be interpreted:

- i.      to compel any act which will constitute a violation of law, regulation or contract applicable to the Corporation (including laws against unfair discrimination, confidentiality agreements, and privacy statute).
- ii.     To violate the Corporation's right to maintain the confidentiality of propriety information, trade secrets, and other information, the premature disclosure of which will prejudice the legitimate interest of the Corporation.
- iii.    To violate the Corporation Code, including the rights of minority directors, and minority shareholders.

**Article 11. SEPARABILITY CLAUSE**

The Board endeavors to comply at all times the principles set out in this Revised CGM. In case of conflict between the Code of Corporate Governance issued by the SEC and this Revised CGM, the Code shall prevail. If the conflict is such that the affected provision of this Revised CGM is rendered invalid, the rest of the provisions of this Revised Manual shall remain valid.

**Article 12. EFFECTIVITY**

This Revised CGM was approved on 28 January 2011 by the Board of Directors. It shall be published in the Website of the Company and shall take effect on April 1, 2011. It supersedes the previous Manual on Corporate Governance that was approved and adopted by the Corporation last 01 January 2008.

Signed:



**DOMINGO T. UY**

Chairman of the Board