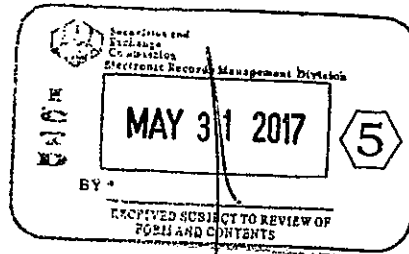




# CHEMPHIL GROUP

LMG CHEMICALS CORP.

30 May 2017

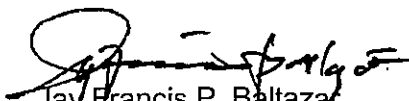


**Director Justina F. Callangan**  
Corporate Governance and Finance Department  
**Securities and Exchange Commission**  
G/F Secretariat Building  
PICC Complex, Roxas Boulevard  
Pasay City, 1307

Dear Dir. Callangan,

**LMG Chemicals Corp.** hereby submits its 2017 Manual on Corporate Governance in compliance with the requirements of the Securities and Exchange Commission pursuant to its Memorandum Circular No. 19, Series 2016 dated November 22, 2016.

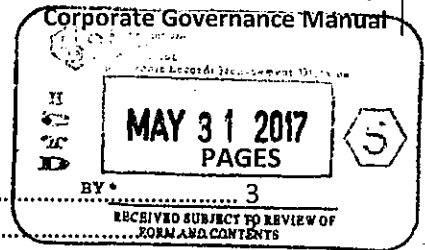
Sincerely,

  
Jay Francis P. Baltazar  
Legal and Compliance Officer

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## 2017 MANUAL ON CORPORATE GOVERNANCE LMG Chemicals Corp. (LMG)

The Board of Directors (the "Board") and Management, officers, and employees and shareholders of LMG Chemicals Corp. (the "Corporation/Company") hereby commit themselves to the principles and the best practices contained in this Revised Manual on Corporate Governance (the "Manual"), and acknowledge that the same may guide the attainment of their corporate goals.

### OBJECTIVE

This Manual shall institutionalize the principles of good corporate governance in the entire organization. The Board, Management, employees and shareholders, believe that good governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness thereof within the organization.

### RULES OF INTERPRETATION

All references to the masculine gender in the salient provisions of this Manual shall likewise cover the feminine gender.

All doubts or questions that may arise in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and investors of the Corporation.

### DEFINITION OF TERMS

- a) **Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

Its purpose is to maximize the organization's long term success, creating sustainable value for its shareholders, stakeholders and the nation.

- 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** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities;
- d) **Management** – a group of executives given the authority by the Board to implement the policies it has laid down in the conduct of the business of the Corporation;
- e) **Independent director** – a person who is independent of management and the controlling shareholder, and is 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 has executive responsibility of day-to-day operations of a part or the whole of the organization;

- g) **Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operation of the Corporation;
- h) **Conglomerate** – a group of corporations that has diversified business activities in varied industries, whereby the operations of such businesses are controlled and managed by a parent corporate entity.
- i) **Non-audit work**– the other services offered by an external auditor to the Corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;
- j) **Internal control** – a process designed and effected by the Board, Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization's policies and procedures;
- k) **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;
- l) **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;
- m) **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 operations;
- n) **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;
- o) **Enterprise Risk Management** – a process, effected by an entity's Board, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives;
- p) **Related Party** – shall cover the Company's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Company exerts direct or indirect control over or that exerts direct or indirect over the Company; the Company's directors; officers; shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the Company.
- q) **Related Party Transactions** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It shall be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are into with an unrelated party that subsequently becomes a related party.

- r) **Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the Company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

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## **THE BOARD'S GOVERNANCE RESPONSIBILITIES**

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### **1. ESTABLISHING A COMPETENT BOARD**

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The Corporation shall be headed by a competent and working Board 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 long-term best interests of its shareholders and other stakeholders.

#### **1.1 Composition**

- 1.1.1 The Board shall be composed of eleven (11) directors who shall be elected by the Corporation's stockholders annually, and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the Corporation's By-Laws. The Board shall be composed of directors with collective working knowledge, experience or expertise that is relevant to the Company's industry or sector. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.
- 1.1.2 The Board shall be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

#### **1.2 Training**

- 1.2.1 The Corporation shall provide a comprehensive orientation program for new directors and annual continuing training for existing directors.

New directors shall be properly oriented upon joining the Board to ensure that they are appropriately apprised of their duties and responsibilities before beginning their directorships. The orientation program covers SEC-mandated topics on corporate governance and an introduction to the Company's business, Articles of Incorporation, and Code of Conduct. It shall be able to meet the specific needs of the Company and the individual directors and aid the new director in effectively performing his or her functions.

The annual continuing training program makes certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the Company. It involves courses on corporate governance matters relevant to the Company, including audit, internal controls, risk management, sustainability and strategy.

### 1.3 Board Diversity

- 1.3.1 The Board shall have a policy on board diversity. Having a board diversity policy is a move to avoid groupthink and ensure that optimal decision-making is achieved. A Board diversity is not limited to gender diversity. It also includes diversity in age, ethnicity, culture, skills, competence and knowledge.
- 1.3.2 The Company is committed to the following principles:
- a. Recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in the attainment of its strategic objectives and maintaining prudent corporate governance.
  - b. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge.
  - c. Presence of independent directors in the Board ensures the exercise of independent judgment, prevention of conflict of interests and balancing of competing demands of the Company.

### 1.4 Corporate Secretary

- 1.4.1 The Board shall ensure that it is assisted in its duties by a Corporate Secretary, who is a separate individual from the Compliance Officer. The Corporate Secretary shall not be a member of the Board of Directors and shall annually attend training on corporate governance.

The Board may appoint Assistant Corporate Secretary and/or Acting Corporate Secretary, who will perform the duties and responsibilities of the Corporate Secretary in the latter's absence or unavailability as provided under Section 1.4.2 (g) hereof.

- 1.4.2 The Corporate Secretary is primarily responsible to the Corporation and its shareholders and not to the Chairman or President of the Company and has, among others, the following duties and responsibilities:
- a. Assists the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual Board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
  - b. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Corporation;
  - c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Corporation, and advises the Board on all relevant issues as they arise;
  - d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;
  - e. Advises on the establishment of Board committees and their terms of reference;
  - f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five (5) working days in advance, and ensures that the



members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Performs required administrative functions;
- i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- j. Performs such other duties and responsibilities as may be provided by the SEC.

### 1.5 Compliance Officer

- 1.5.1 The Board shall ensure that it is assisted in its duties by a Compliance Officer, who shall hold the position of at least a Senior Vice President or an equivalent position with adequate stature and authority in the Corporation. The Compliance Officer shall not be a member of the Board of Directors and shall annually attend training on corporate governance.
- 1.5.2 The Compliance Officer is a member of the Company's management team in charge of the compliance function. He/she is primarily liable to the Corporation and its shareholders, and not to the Chairman or President of the Company. He/she has, among others, the following duties and responsibilities:
  - a. Ensures proper onboarding of new directors (i.e., orientation on the Company's business, charter, articles of incorporation and by-laws, among others);
  - b. Monitors, reviews, evaluates and ensures the compliance by the Corporation, its officers and directors with the relevant laws, the Code of corporate governance ("Code"), rules and regulations and all governance issuances of regulatory agencies;
  - c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
  - d. Ensures the integrity and accuracy of all documentary submissions to regulators;
  - e. Appears before the SEC when summoned in relation to compliance with the Code;
  - f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
  - g. Identifies possible areas of compliance issues and works towards the resolution of the same;
  - h. Ensures the attendance of Board members and key officers to relevant trainings; and
  - i. Performs such other duties and responsibilities as may be provided by the SEC.

## 2. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD

---

The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the Company's articles and by-laws, and other legal pronouncements and guidelines shall be clearly made known to all directors as well as to shareholders and other stakeholders.

### 2.1 Responsibilities of the Board

- 2.1.1 To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, the **Board** shall have, among others, the following **duties and responsibilities**:
- a. The Board members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all shareholders.
  - b. The Board shall oversee the development of and approve the Company's business objectives and strategy, and monitor their implementation, in order to sustain the Company's long-term viability and strength.
  - c. The Board shall be headed by a competent and qualified Chairperson.
  - d. The Board shall be responsible for ensuring and adopting an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value. This shall include adopting a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Corporation.
  - e. The Board shall align the remuneration of key officers and Board members with the long-term interests of the Company. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director shall participate in discussions or deliberations involving his own remuneration.
  - f. The Board shall have and disclose in this Manual a formal and transparent Board nomination and election policy that shall include how it accepts nominations from minority shareholders and reviews nominated candidates. The policy shall also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors shall be aligned with the strategic direction of the Company.
  - g. The Board shall have the overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy shall include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy shall encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations.
  - h. The Board shall be primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO)/President, and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).

- i. The Board shall establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer/President, and personnel's performance is at par with the standards set by the Board and Management.
- j. The Board shall oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, Board members, and shareholders. The Board shall also approve the Internal Audit Charter.
- k. The Board shall oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework shall guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.
- l. The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the directors in the performance of their functions and shall be publicly available and posted on the Company's website.

## 2.2 Chairman of the Board

- 2.2.1 The Board shall be headed by a competent and qualified Chairperson. The **roles and responsibilities of the Chairman** include, among others, the following:
- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
  - b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
  - c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
  - d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
  - e. Assures the availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
  - f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

## 2.3 Nomination and Election of Board of Directors

- 2.3.1 To promote transparency of the Board's nomination and election process, the Board observes the following procedures:
- a. The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors shall be submitted in writing to the Corporate Secretary at least seven (7) business days prior to the holding of election. A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special

meeting of the stockholders for the election of directors shall be qualified to be nominated as a director.

- b. The Company may engage the services of professional search firms or external sources when searching for candidates to the Board.
- c. The Corporate Governance Committee meets, pre-screens and checks the qualifications of, and deliberates on all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the succeeding sections. Said list shall contain all the information about the nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for election as Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared.
- d. To be eligible for election as director, the nominees shall submit to the Corporate Governance Committee an undertaking that they have all the qualifications and none of the disqualifications of a director.
- e. Based on the Final List of Candidates, directors are elected by shareholders individually. A quorum must be present and nominees obtaining the most number of votes shall be considered as elected.

### 2.3.2 Qualifications

The nomination and election process also includes the review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates:

- a. Possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile;
- b. Have a record of integrity and good repute;
- c. Have sufficient time to carry out their responsibilities; and
- d. Have the ability to promote a smooth interaction among Board members.

### 2.3.3 Permanent Disqualifications

The following may be considered as grounds for the permanent disqualification of a director:

- a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) 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 (c) arises out of his fiduciary 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 misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund

dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if (a) such person is the subject of an order of the SEC, BSP 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; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is 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 organization;

- c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;
- e. Any person judicially declared as insolvent;
- f. 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 previously;
- g. Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
- h. Other grounds as the SEC may provide.

#### 2.3.4 Temporary Disqualifications

In addition, the following may be grounds for temporary disqualification of a director:

- a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election;
- b. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the SEC. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- c. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and

- d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

## 2.4 Succession Planning

- 2.4.1 The transfer of company leadership to highly competent and qualified individuals is the goal of succession planning. It is the Board's responsibility to implement a process to appoint competent, professional, honest and highly motivated management officers who can add value to the Company.

A good succession plan is linked to the documented roles and responsibilities for each position, and shall start in objectively identifying the key knowledge, skills, and abilities required for the position. A professional development plan shall be defined to help the individuals prepare for the job (e.g., training to be taken and cross experience to be achieved). The process shall be conducted in an impartial manner and aligned with the strategic direction of the organization.

Any vacancies occurring in the Board may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, provided, that any vacancy occurring by reason of removal by stockholders, by expiration of term or increase in the number of directors shall be filled by the stockholders in a regular or special meeting called for the purpose.

The Board may assign its President, CEO and/or Chief Operating Officer (COO) in choosing a suitable replacement for any of its top officers occupying key management positions. Vacancy shall be filled up smoothly through internal promotion but in cases where no insider is qualified, external candidates shall be considered.

## 2.5 Remuneration Policy

- 2.5.1 To be able to attract and retain the services of qualified and competent individuals, the level of remuneration must be sufficient, in line with the business and risk strategy, objectives, values and incorporate measures to prevent conflicts of interest. Remuneration policy promotes a sound risk culture in which risk-taking behavior is appropriate. It shall encourage employees to act in the long-term interest of the Company as a whole, rather than for themselves or their business lines only.

The Board shall formulate and adopt a policy specifying the relationship between remuneration and performance, which includes specific financial and non-financial metrics to measure performance and set specific provisions for employees with significant influence on the overall risk profile of the Corporation.

The Company adopts an overall compensation package that is aligned with labor laws and regulations, performance-driven and competitive with industry standards, with a goal to attract, motivate and retain the best people.

The Company pays salaries commensurate to the individual's qualifications & experience, nature of the job, position, and level of responsibility with reference to an approved salary scale.

The Company's compensation package is reviewed regularly and benchmarked against competition through participation in annual compensation and benefit surveys to ensure its competitiveness vis-à-vis industry and other market considerations.

Directors, as such, shall not receive any compensation unless approved by the stockholders or provided in the By-Laws of the Company. No director should

participate in the approval of his compensation. However, the Board may, from time to time, approve a reasonable per diem that a director may receive for attendance in Board and Board Committee meetings.

## 2.6 Related Party Transactions (RPT) Policy

- 2.5.1 Ensuring the integrity of related party transactions is an important fiduciary duty of the director. It is the Board's role to initiate policies and measures geared towards prevention of abuse and promotion of transparency, and in compliance with applicable laws and regulations to protect the interest of all shareholders.

The Company shall ensure that transactions occur at market prices, at arm's-length basis and under conditions that protect the rights of all shareholders.

The Company shall set its materiality threshold at a level where omission or misstatement of the transaction could pose a significant risk to the Company and influence its economic decision.

Depending on the materiality threshold, approval of management, the RPT Committee, the Board or the shareholders shall be required. In cases where the shareholders' approval is required, the interested shareholders shall abstain and let the disinterested parties or majority of the minority shareholders decide.

## 3. ESTABLISHING BOARD COMMITTEES

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The Board shall constitute the proper committees to assist it in good governance. Board committees shall be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns.

All established committees shall be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other information. The Charters shall provide the standards for evaluating the performance of the Committees. Committee Charters shall be publicly available and posted on the Company website.

### 3.1 The Audit Committee

- 3.1.1 The Board shall establish a Audit Committee. Its primary function is to enhance the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It shall be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, shall be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairman of the Audit Committee shall not be the chairman of the Board or of any other committees.

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

In the absence of Related Party Transactions Committee and Board Risks Oversight Committee, the Audit Committee shall be tasked with reviewing all material related party transactions of the Company and shall be responsible for the oversight of the Company's Enterprise Risk Management system to ensure its functionality and effectiveness.

The Audit Committee meets with the Board at least every quarter without the presence of the CEO/President or other management team members, and periodically meets with the head of the internal audit.

3.1.2 The **Audit Committee** has the following **duties and responsibilities**, among others:

**Audit**

- a. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances shall be in place in order to (a) safeguard the Company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Company's financial data, and (d) ensure compliance with applicable laws and regulations;
- c. Oversees the Internal Audit Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive (CAE). The Audit Committee shall also approve the terms and conditions for outsourcing internal audit services;
- d. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he shall directly report to the Audit Committee;
- e. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;
- f. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- g. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation's overall consultancy expenses. The 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, shall be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report;
- h. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Areas where a significant amount of judgment has been exercised
  - Significant adjustments resulting from the audit



- Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements
- i. Reviews the disposition of the recommendations in the External Auditor's management letter;
  - j. Performs oversight functions over the Corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
  - k. Coordinates, monitors and facilitates compliance with laws, rules and regulations;
  - l. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the SEC, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders; and

#### **Related Party Transactions**

- a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships shall be reflected in the relevant reports to the Board and regulators/supervisors;
- b. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:
  1. The related party's relationship to the Company and interest in the transaction;
  2. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  3. The benefits to the Corporation of the proposed RPT;
  4. The availability of other sources of comparable products or services; and
  5. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company shall have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;
- c. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;
- d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

- e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

**Risks Oversight**

- a. Develops a formal enterprise risk management plan which contains the following elements: (1) common language or register of risks, (2) well-defined risk management goals, objectives and oversight, (3) uniform processes of assessing risks and developing strategies to manage prioritized risks, (4) designing and implementing risk management strategies, and (5) continuing assessments to improve risk strategies, processes and measures;
- b. Oversees the implementation of the enterprise risk management plan through a Management Risk Oversight (MRO) Committee. The MRO Committee conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The MRO Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;
- d. Advises the Board on its risk appetite levels and risk tolerance limits;
- e. Reviews at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;
- f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stakeholders;
- g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management; and
- h. Reports to the Board on a regular basis, or as deemed necessary, the Company's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

**3.2 The Corporate Governance Committee**

- 3.2.1 The Board shall establish a Corporate Governance (CG) Committee that shall be tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee. It shall be composed of at least three (3) members, all of whom should be independent directors, including the Chairman.

- 3.2.2 The CG Committee is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:
- a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments;
  - b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;
  - c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
  - d. Recommends continuing education/training programs for directors, assignment of tasks/projects to Board committees, succession plan for the Board members and senior officers, and remuneration packages for corporate and individual performance;
  - e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
  - f. Proposes and plans relevant trainings for the members of the Board;
  - g. Determines the nomination and election process for the Company's directors and has the special duty of defining the general profile of Board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and
  - h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates.

#### **4. FOSTERING COMMITMENT**

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To show full commitment to the Company, the directors shall devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.

##### **4.1 Board Meetings and Attendance**

- 4.1.1 The directors shall attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the SEC, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.
- 4.1.2 The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

- 4.1.3 The Board, may, to promote transparency, require the presence of at least one (1) independent director in all of its meetings. However, the absence of an independent director shall not affect the quorum requirements if he is duly notified of the meeting but notwithstanding such notice fails to attend.
- 4.1.4 Items to be discussed during the Board meeting shall be made available to each director at least seven (7) days in advance. In emergency circumstances, however, the meeting may be called at a shorter notice.

## 4.2 Multiple Board Seats

- 4.2.1 The non-executive directors of the Board shall concurrently serve as directors to a maximum of five (5) publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Company.
- 4.2.2 A director shall exercise due discretion in accepting and holding directorship outside of the Corporation. The director shall notify the Board where he/she is an incumbent director before accepting a directorship in another Company.

## 5. REINFORCING BOARD INDEPENDENCE

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The Board shall endeavor to exercise an objective and independent judgment on all corporate affairs.

### 5.1 Number of Independent Directors

The Board shall have at least three (3) independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher.

The presence of independent directors in the Board is to ensure the exercise of independent judgment on corporate affairs and proper oversight of managerial performance, including prevention of conflict of interests and balancing of competing demands of the Corporation.

### 5.2 Qualifications of Independent Directors

The Board shall ensure that its independent directors possess the necessary qualifications and none of the disqualifications for an independent director to hold the position.

Independent directors need to possess a good general understanding of the industry they are in. Further, it is worthy to note that independence and competence shall go hand-in-hand. It is therefore important that the non-executive directors, including independent directors, possess the qualifications and stature that would enable them to effectively and objectively participate in the deliberations of the Board.

An **Independent Director** refers to a person who, ideally:

- a. Is not, or has not been a senior officer or employee of the Company unless there has been a change in the controlling ownership of the Company;
- b. Is not, and has not been in the three (3) years immediately preceding the election, a director of the covered Company; a director, officer, employee of the Company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Company's substantial shareholders and its related companies;

- c. Has not been appointed in the Company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election;
- d. Is not an owner of more than two percent (2%) of the outstanding shares of the Company, its subsidiaries, associates, affiliates or related companies;
- e. Is not a relative of a director, officer, or substantial shareholder of the Company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- f. Is not acting as a nominee or representative of any director of the Company or any of its related companies;
- g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Philippine Stock Exchange (PSE), an associated person or salesman, and an authorized clerk of the broker or dealer;
- h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;
- i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;
- j. Is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders; and
- k. Is not employed as an executive officer of another company where any of the Company's executives serve as directors.

### 5.3 Term Limit of Independent Directors.

The Board's independent directors shall serve for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from re-election as such in the Company. But he/she may continue to qualify for nomination and election as a non-independent director. In the instance that the Company wants to retain an independent director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

Reckoning of the cumulative nine-year term is from 2012, in connection with SEC Memorandum Circular No. 9, Series of 2011.

### 5.4 Chief Executive Officer (CEO) / President

To avoid conflict or a split Board and to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making, the positions of Chairman of the Board and Chief Executive Officer/President should be held by separate individuals and each should have clearly defined responsibilities. The CEO/President has the following roles and responsibilities, among others:

- a. Determines the Corporation's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the Corporation's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
- c. Oversees the operations of the Corporation and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the Corporation's industry and market and keeps up-to-date with its core business purpose;
- e. Directs, evaluates and guides the work of the key officers of the Corporation;
- f. Manages the Corporation's resources prudently and ensures a proper balance of the same;
- g. Provides the Board with timely information and interfaces between the Board and the employees;
- h. Builds the corporate culture and motivates the employees of the Corporation; and
- i. Serves as the link between internal operations and external stakeholders.

## 5.5 Lead Director

- 5.5.1 The Board shall designate a lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.
- 5.5.2 The lead director has sufficient authority to lead the Board in cases where management has clear conflicts of interest. The functions of the lead director include, among others, the following:
  - a. Serves as an intermediary between the Chairman and the other directors when necessary;
  - b. Convenes and chairs meetings of the non-executive directors; and
  - c. Contributes to the performance evaluation of the Chairman, as required.

## 5.6 Conflict of Interest

A director with a material interest in any transaction affecting the Corporation shall abstain from taking part in the deliberations for the same.

The abstention of a director from participating in a meeting when related party transactions, self-dealings or any transactions or matters on which he/she has a material interest are taken up ensures that he has no influence over the outcome of the deliberations. The fundamental principle to be observed is that a director does not use his

position to profit or gain some benefit or advantage for his himself and/or his/her related interests.

#### **5.6 Non-Executive Directors Meetings**

The non-executive directors (NEDs) shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the Corporation. The meetings shall be chaired by the lead independent director.

NEDs are expected to scrutinize Management's performance, particularly in meeting the companies' goals and objectives. Further, it is their role to satisfy themselves on the integrity of the Corporation's internal control and effectiveness of the risk management systems. This role can be better performed by the NEDs if they are provided access to the external auditor and heads of the internal audit, compliance and risk functions, as well as to other key officers of the Company without any executive directors present. The lead independent director shall lead and preside over the meeting.

### **6. ASSESSING BOARD PERFORMANCE**

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The best measure of the Board's effectiveness is through an assessment process. The Board shall regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

#### **6.1 Board Evaluation**

- 6.1.1 The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees.

Board assessment helps the directors to thoroughly review their performance and understand their roles and responsibilities. The periodic review and assessment of the Board's performance as a body, the Board committees, the individual directors, and the Chairman show how the aforementioned shall perform their responsibilities effectively. In addition, it provides a means to assess a director's attendance at Board and committee meetings, participation in boardroom discussions and manner of voting on material issues.

- 6.1.2 The Board shall have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system shall allow for a feedback mechanism from the shareholders. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Corporation's Annual Report or in such form of report that is applicable to the Corporation. The adoption of this performance evaluation system must be covered by a Board approval.
- 6.1.3 During the evaluation, directors shall be afforded the opportunity to identify areas for improvement in the performance of their duties and responsibilities.

### **7. STRENGTHENING BOARD ETHICS**

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Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

- 7.1 The Board shall adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. This Manual shall be properly disseminated to the Board, Management and employees. It shall also be disclosed and made available to the public through the Company website.
- 7.2 The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

The Board has the primary duty to make sure that the internal controls are in place to ensure the Company's compliance with the Code of Business Conduct and Ethics and its internal policies and procedures. Hence, it needs to ensure the implementation of said internal controls to support, promote and guarantee compliance. This includes efficient communication channels, which aid and encourage employees, customers, suppliers and creditors to raise concerns on potential unethical/unlawful behavior without fear of retribution. A Company's ethics policy shall be made effective and inculcated in the Company culture through a communication and awareness campaign, continuous training to reinforce the code, strict monitoring and implementation and setting in place proper avenues where issues may be raised and addressed without fear of retribution.

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## **DISCLOSURE AND TRANSPARENCY**

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### **8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

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The Company shall establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.

- 8.1 Corporate disclosure policies and procedures shall be in place to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders to give a fair and complete picture of a Company's financial condition, results and business operations.
- 8.2 The Company shall have a policy requiring all directors and officers to disclose/report to the Company any dealings in the Company's shares within three (3) business days.
- 8.3 The Board shall fully disclose all relevant and material information on individual Board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.
- 8.4 The Company shall provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. Also, companies shall disclose the remuneration on an individual basis, including termination and retirement provisions.
- 8.5 Full disclosure of the Company's policies governing RPTs and other unusual or infrequently occurring transactions shall be required in the Manual on Corporate Governance. The material or significant RPTs reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report.
- 8.6 The Company shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree Company shall appoint an



independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

- 8.7 The Company's corporate governance policies, programs and procedures shall be submitted to the regulators and posted on the Company's website.

## **9. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY**

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The Company shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

### **9.1 External Auditor**

- 9.1.1 The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor shall be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change shall be disclosed to the regulators and the public through the Company website and required disclosures.
- 9.1.2 The Audit Committee Charter shall include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter shall also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.
- 9.1.3 The Company shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee shall be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

## **10. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING**

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The Company shall ensure that the material and reportable non-financial and sustainability issues are disclosed.

- 10.1 The Board shall have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. The Company shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

## **11. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

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The Company shall maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users. Communication channels shall include, but not limited to, Company website, media and analyst briefings.

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## **INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK**

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## **12. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

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To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Company shall have a strong and effective internal control system and enterprise risk management framework.

### **12.1 Internal Control System**

The Company shall have an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of operation.

The control environment of the Company consists of the following:

- a. The Board which ensures that the Company is properly and effectively managed and supervised;
- b. A Management that actively manages and operates the Corporation in a sound and prudent manner;
- c. The organizational and procedural controls supported by effective management information and risk management reporting systems; and
- d. An independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's 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, and compliance with laws, rules, regulations and contracts.

The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:

- a. Definition of the duties and responsibilities of the CEO/President who is ultimately accountable for the Corporation's organizational and operational controls;
- b. Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO/President;
- c. Evaluation of proposed senior management appointments;
- d. Selection and appointment of qualified and competent management officers; and
- e. Review of the Corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.

The Company shall establish an internal audit system that can reasonably assure the Board, Management and stockholders that the key organizational and operational controls are faithfully complied with. The Board shall appoint an Internal Auditor to perform the audit function, and may require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.

## 12.2 Internal Audit

The Company shall have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations. The following are the **functions of the internal audit**, among others:

- a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
- b. Performs regular and special audit as contained in the annual audit plan and/or based on the Company's risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the organization;
- d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Company;
- f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluates specific operations at the request of the Board or Management, as appropriate; and
- h. Monitors and evaluates governance processes.

The Company's internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers.

## 12.3 The Chief Audit Executive (CAE)

The qualified CAE, appointed by the Board shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, qualified independent executive or senior management personnel shall be assigned the responsibility for managing the fully outsourced internal audit activity.

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO/President. The following are the responsibilities of the CAE, among others:

- a. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
- b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
- c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
- d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
- e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
- f. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

#### **12.4 Enterprise Risk Management**

The Company shall establish a separate, effective enterprise risk management function to identify, assess and monitor key risk exposures.

12.4.1 The risk management function involves the following activities, among others:

- a. Defining a risk management strategy;
- b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;
- c. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;
- d. Establishing a risk register with clearly defined, prioritized and residual risks;
- e. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;
- f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and
- g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

#### **12.5 Chief Risk Officer (CRO)**

In managing the Company's Risk Management System, the Company may have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to Company's size, risk profile and complexity of operations. The CRO has the following functions, among others:

- a. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
- b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
- c. Collaborates with the CEO in updating and making recommendations to the Board Risk Oversight Committee;
- d. Suggests ERM policies and related guidance, as may be needed; and
- e. Provides insights on the following:
  - Risk management processes are performing as intended;
  - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
  - Established risk policies and procedures are being complied with.

There should be clear communication between the Audit Committee and the CRO.

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## CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

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### 13. PROMOTING SHAREHOLDER RIGHTS

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The Company shall treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

#### 13.1 Shareholders' Rights

The Board shall commit to respect the following rights of the stockholders as provided for in the Corporation Code of the Philippines:

##### 13.1.1 Pre-emptive right

- a. All stockholders of a stock corporation shall enjoy pre-emptive right to subscribe to all issues or disposition of shares of any class, in proportion to their respective shareholdings, Provided, That such pre-emptive right shall not extend to shares to be issued in compliance with laws requiring stock offerings or minimum stock ownership by the public; or to shares to be issued in good faith with the approval of the stockholders representing two thirds (2/3) of the outstanding capital stock, in exchange for property needed for corporate purposes or in payment of a previously contracted debt.

##### 13.1.2 Voting Rights

- a. Stockholders shall have the right to nominate, elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporate Code.
- b. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

##### 13.1.3 Right to Inspection

- a. All 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 furnished with annual reports, including financial statements, without cost or restrictions.

#### 13.1.4 Right to Information

- a. The shareholders shall be provided, upon request, with periodic reports which disclose relevant personal and professional information about the directors and officers and certain other matters, such as holdings of the Corporation's shares, dealings with the Corporation, relationship among directors and key officers, and the aggregate compensation of directors and officers.
- b. The minority shareholders shall be granted 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, and in accordance with law, jurisprudence and best practices.
- c. The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable, and to those relating to matters for which the Management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being, within the definition of "legitimate purposes" and in accordance with law, jurisprudence and best practice.

#### 13.1.5 Right to Dividend

- a. Shareholders shall have the right to receive dividends subject to the discretion of the Board.

#### 13.1.6 Appraisal Right

- a. The shareholders shall have appraisal right or right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:
  - i. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
  - ii. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Code; and
  - iii. In case of merger or consolidation.

- 13.2 The Company shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty eight (28) days before the meeting. Stockholders are encouraged to personally attend the stockholders' meeting. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

The Notice of Meetings may also be sent to shareholders through electronic means such as e-mail.

- 13.3** The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available on the Company website within five (5) business days from the end of the meeting.

Voting results include a breakdown of the approving and dissenting votes on the matters raised during the Annual or Special Stockholders' Meeting.

The Minutes of Meeting include the following matters: (1) A description of the voting and the vote tabulation procedures used; (2) the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received; (3) the matters discussed and the resolutions reached; (4) a record of the voting results for each agenda item; (5) a list of the directors, officers and shareholders who attended the meeting; and (6) dissenting opinion on any agenda item that is considered significant in the discussion process.

- 13.4** The Board shall take the 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 shall be made available to stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

The Board shall pave the way for electronic filing and distribution of shareholder information necessary to make informed decisions and information dissemination of corporate acts via any electronic means, subject to legal constraint.

- 13.5** The Board shall make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.

The Board of Directors may engage the services of a neutral third party to assist in the resolution of issues between the Company and stockholders, third parties and regulatory authorities. The alternative resolution system may include arbitration, mediation, conciliation, early neutral evaluation, mini-trial, or any combination thereof, as the Company and the circumstances sees fit.

Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties, and the policy that the decision-making authority in the process rests with the parties.

- 13.6** The Board may establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders. The IRO shall be present at every shareholders' meeting.

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## **DUTIES TO STAKEHOLDERS**

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### **14. RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS**

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The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake,

stakeholders shall have the opportunity to obtain prompt effective redress for the violation of their rights.

- 14.1 The Board shall identify the Company's various stakeholders and promote cooperation between them and the Company in creating wealth, growth and sustainability.
- 14.2 The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.
- 14.3 The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Company and to obtain redress for the violation of their rights.

## **15. ENCOURAGING EMPLOYEES' PARTICIPATION**

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A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.

- 15.1 The Board shall establish policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and in its governance.

The establishment of policies and programs covering, among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in the corporation. To foster active participation, the Company shall recognize the firm-specific skills of its employees and their potential contribution in corporate governance. The employees' viewpoint in certain key decisions may also be considered in governance processes through work councils or employee representation in the Board.

### **15.2 Anti-Corruption Policy and Program**

The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Further, the Board shall disseminate the policy and program to employees across the organization through trainings to embed them in the Company's culture.

The adoption of an anti-corruption policy and program endeavors to mitigate corrupt practices such as, but not limited to, bribery, fraud, extortion, collusion, conflict of interest and money laundering. This will also encourage employees to report corrupt practices and outlines procedures on how to combat, resist and stop these corrupt practices.

The Company's Anti-Corruption policy is embodied in the following policies:

- The Code of Conduct, Organizational Discipline and Ethics (CCODE)
- Policy on Gift-giving Activities
- Guidelines for Suppliers/Contractors
- Whistleblowing Policy

### **15.3 Whistleblowing Policy**

The Board shall establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of



retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

Directors, Senior Management/Officers and Employees are expected to conduct themselves with integrity, impartiality and honesty. It is every employee's responsibility and in all interest of the Company to ensure that any inappropriate behavior that compromise the interest of the shareholders, investors, customers and the wider public does not occur.

The Company shall assists individual employees to disclose information relevant to suspected misconduct, malpractice or irregularity through a confidential reporting channel.

It is the policy of the Company to make every effort treating all disclosures in a confidential and sensitive manner after employee reports inappropriate behavior or irregularity. The identity of the individual employee making genuine and appropriate allegation are assured of fair treatment. In addition, employees are also assured of protection against unfair dismissal, victimization, or unwarranted disciplinary action, even if the concerns raised turned out to be unsubstantiated.

## **16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY**

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The Company shall be socially responsible in all its dealings with the communities where it operates. It shall ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

- 16.1** The Company shall recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Company to grow its business, while contributing to the advancement of the society where it operates.

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## **IMPLEMENTATION OF THIS MANUAL**

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### **17. COMMUNICATION AND MONITORING**

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#### **17.1 Governance Self-Rating System**

The Board may create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in this Manual.

The creation and implementation of such self-rating system, including its salient features, may be disclosed in the Corporation's annual report.

#### **17.2 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 interests of its stockholders and other stakeholders shall be publicly and timely disclosed. Such information shall include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

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

### **17.3 Commitment to Good Corporate Governance**

The Company shall establish and implement their corporate governance rules in accordance with this Manual that can be used as reference by the members of the Board and Management.

This Manual shall be submitted to SEC for its evaluation to determine its compliance with the Code taking into consideration the nature, size and scope of the business of the Corporation.

This Manual shall be made available for inspection by any shareholder at reasonable hours on business days.

All directors, officers, division and department heads are tasked to ensure thorough dissemination of the Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

### **17.4 Regular Review of the Manual**

Each Committee shall report regularly to the Board of Directors.

The Compliance Officer shall establish an evaluation system to determine and measure compliance with this manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Section 18 of this Manual.

This Manual shall be subject to annual review; any change shall be approved by the Board and disclosed to SEC.

All business processes and practices being performed within any department or business unit of the Company that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant level.

## **18. PENALTIES FOR NON-COMPLIANCE**

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### **18.1 Administrative Sanctions**

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Company's directors, officers, staff,

subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:

- a. In case of **first violation**, the subject shall be reprimanded.
- b. Suspension from office shall be imposed in case of **second violation**. The duration of the suspension shall depend on the gravity of the violation. This shall not be applicable to directors.
- c. For third violation, the maximum penalty of removal from office shall be imposed. With regard to directors, the provision of Section 28 of the Corporation Code shall be observed.

The commission of a third violation of this Manual by any member of the Board of the Company or its subsidiaries and affiliates shall be sufficient cause for removal from directorship.

The Compliance Officer shall be responsible for reporting violation/s after due notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

#### 19. EFFECTIVITY

This revised manual shall take effect upon the approval of the Board. It shall supersede the previous Manual on Corporation Governance.

  
JAY FRANCIS P. BALTAZAR  
Compliance Officer

  
ANTONIO M. GARCIA  
Chairman of the Board