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ATTY. HENRY B. SALAZAR  
Contact Person

846-2906  
Company Telephone Number

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PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION

3 September 2014

**Atty. JUSTINA F. CALLANGAN**

Director, Corporate Finance & Finance Department  
Securities and Exchange Commission  
SEC Bldg., EDSA, Greenhills  
Mandaluyong City

Dear Director Callangan,

This refers to SEC Memorandum Circular No. 9, series of 2014 on the Commission's prescribed changes to our Manual of Corporate Governance.

In this regard, may we inform you that the same had been complied with. The amended PNCC Manual for Corporate Governance and the Secretary's Certificate on the approval thereof by the PNCC Board of Directors are herewith submitted for the reference of the Commission.

May you find this submission in order.

Truly yours,

  
**JANICE DAY E. ALEJANDRINO**  
SVP / Compliance Officer



**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

REPUBLIC OF THE PHILIPPINES)  
PARAÑAQUE CITY ) S.S.

**SECRETARY'S CERTIFICATE**

I, HENRY B. SALAZAR, Filipino, of legal age, with office address at PNCC Complex, Km. 15 East Service Road, Bicutan, Parañaque City, after having been duly sworn in accordance with law, hereby depose and state:

1. That I am the Corporate Secretary of the Philippine National Construction Corporation (PNCC), a corporation duly organized and existing under and by virtue of Philippines laws, with principal office at PNCC Complex, Km. 15 East Service Road, Bicutan, Parañaque City;
2. That during its Regular Meeting on August 18, 2014, the Board of Directors passed and adopted the following resolution, to wit:

**RESOLUTION NO. BD-32-2014**


RESOLVE, AS IT IS HEREBY RESOLVED, to approve PNCC's Revised Manual on Corporate Governance, adopting the amendments prescribed by the Securities and Exchange Commission through its Memorandum Circular No. 9, Series of 2014, consistent with commitments made in the 2013 Annual Corporate Governance Report (ACGR) that was filed by the company with the SEC and the PSE.

Issued this SEP 02 2014 day of September, 2014 at Parañaque City.

  
HENRY B. SALAZAR  
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this SEP 02 2014 day of September, 2014 at Mandaluyong City, affiant exhibiting IBP Lifetime Membership No. 07169 issued on January 14, 2008 in Batangas as competent proof of his identity.

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Series of 2014.

  
ATTY. BELMAR R. AGCAOLI JR.  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2014  
PTR NO. 413105 / 2014 MLA.  
IBP NO. 94393 / 2014 MLA.  
ROLL NO. 24055 / TIN NO. 144-519-065  
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**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

**REVISED MANUAL ON CORPORATE GOVERNANCE**

(In compliance with the Revised Code of Corporate Governance,  
SEC Memorandum Circular No. 9, Series of 2014,  
and consistent with commitments made in the  
2013 Annual Corporate Governance Report (ACGR)  
that was filed by the company with the SEC and PSE)

It is the policy of the Philippine National Construction Corporation (PNCC) to actively promote and pursue corporate governance reforms and to continuously observe the principles of fairness, accountability and transparency. The Board of Directors of PNCC hereby adopts this Revised Manual on Corporate Governance as a conscious attempt to significantly enhance PNCC's corporate organization to make it a valuable partner of the government in national development and to make it a corporation that is competitive both locally and globally.

The corporation believes that the essence of corporate governance is transparency; the more transparent the internal workings of the corporation are, the more difficult it will be for the Board and / or Management to mismanage the corporation to misappropriate its assets. The corporation believes it must disclose all material information to all its stakeholders in a timely and accurate manner at all times.

**ARTICLE 1: DEFINITION OF TERMS**

- 1.1 Definition of Terms.** For purposes of this Code, the following terms shall have the following meanings:
- 1.1.1 "Articles of Incorporation" refers to the specific purpose or purposes for which the stock corporation is being incorporated and registered with the Securities and Exchange Commission (SEC).
  - 1.1.2 "By-laws" refers to the basic instrument adopted by the non-chartered corporation and duly registered with the Securities and Exchange Commission (SEC) for its internal government, and to regulate the conduct and prescribe the rights and duties of its stockholders or members towards the corporation and among themselves in reference to the management of its affairs.
  - 1.1.3 Board of Directors refers to the collegial body that acts as the Governing Board of the corporation through the exercise of the corporate powers, the conduct all business and the control or holding of all properties of the corporation.

- 1.1.4 "Chief Executive Officer ("CEO) refers to the highest ranking corporate executive who heads Management, and who holds the rank of President.
- 1.1.5 "Corporate Governance" refers to the framework of rules, systems and processes in the corporation that governs the performance of the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders, which include, among others, customers, employees, suppliers, financiers, government and the community in which it operates.
- 1.1.6 "Director" refers to any member of the Governing Board of the Corporation.
- 1.1.7 "Executive Officer" refers to the CEO, and such other corporate officer as expressly provided for in the by-laws.
- 1.1.8 "Management" refers to the body given the authority to implement policies determined by the Board in directing the course and business activities of the corporation.
- 1.1.9 "Non-chartered Corporation" refers to a corporation organized and operating under Batas Pambansa Bilang 68, or "The Corporation Code of the Philippines."
- 1.1.10 "Stakeholder" refers to any individual or entity for whose benefit the corporation has been formed, or whose life, occupation, business or well-being is directly affected, whether favorably or adversely, by the regular transactions, operations, or pursuit of the business or enterprise, and which would include a stockholder, member or other investor in the corporation, management, employees, supply creditors or the community in which the corporation operates.
- 1.1.11 "Subsidiary" refers to a corporation where at least a majority of the outstanding capital stock is owned or controlled directly or indirectly, through one or more intermediaries, by the corporation.

- 2.1 **Coverage.** This Code shall be observed by the corporation, including its subsidiaries.

## **ARTICLE 2: COMMITMENT**

The Board of Directors, Management, Officers and Staff of the PHILIPPINE NATIONAL CONSTRUCTION CORPORATION (PNCC) hereby commit themselves to the principles and

best practices contained in this Manual and acknowledge that these principles and best practices will guide them in the attainment of the corporation's goals. The Corporation continues to adhere to its Mission and Vision Statements which form an integral part of this Manual.

### **ARTICLE 3: BOARD GOVERNANCE**

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

#### **3.1 Composition of the Board**

- 3.1.1 The Board shall be composed of eleven (11) members who are elected by the stockholders entitled to vote at the annual meeting and shall hold office until their successors are elected and qualified in accordance with the By-Laws of the corporation. The corporation shall have at least two (2) independent directors.
- 3.1.2 The membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision making process. The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

#### **3.2 Qualification of Directors**

- 3.2.1 In addition to the qualifications for membership in the Board provided for in the Corporation Code and other relevant laws, the members of the Board should possess the following qualifications:
  - 3.2.1.1 Be a Filipino citizen;
  - 3.2.1.2 At least a college graduate or equivalent college degree, with at least five years relevant experience;
  - 3.2.1.3 At least thirty (30) years old;
  - 3.2.1.4 Be of good moral character, of unquestionable integrity and of known probity;
  - 3.2.1.5 Posses management skills and competence preferably relating to the operations of the corporation;
  - 3.2.1.6 Assiduous.

3.2.2 The Board may likewise provide for the following additional qualifications for membership in the Board:

3.2.2.1 Membership in good standing in relevant industry, business or professional organizations

3.2.2.2 Previous business experience in relevant industry.

### **3.3 Disqualification of Directors**

**3.3.1 Permanent Disqualification.** The following shall be the grounds for the permanent disqualification of a director:

3.3.1.1 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, 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;

3.3.1.2 Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Securities and Exchange Commission ("Commission") 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 a director or officer or 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.

3.3.1.3 If such person is currently the subject of an order of the Commission 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 Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-



regulatory organization suspending or expelling him from membership, participation or association with a member of participant or the organization;

- 3.3.1.4 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;
- 3.3.1.5 Any person who has been adjudged by final judgment or order of the Commission, 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 administered by the Commission or BSP, or any of its rule, regulation or order;
- 3.3.1.6 Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;
- 3.3.1.7 Any person judicially declared as insolvent;
- 3.3.1.8 Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (i) to (v) above;
- 3.3.1.9 Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.
- 3.3.1.10 Persons who have been convicted by final judgment or a court or tribunal of:
  - a) A crime or offense involving dishonesty or breach of trust such as, but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery; violation of the Bouncing Checks Law, the Anti-Graft and Corrupt Practices Act; violating banking laws, rules, and regulations;

- b) Persons who have been judicially declared insolvent, spendthrift or incapacitate to contract;
- c) Persons who have been found by a competent administrative body as administratively liable for violation of laws, rules and regulations where a penalty of removal from office is imposed, which finding of the administrative body has become final and executor;

**3.3.2 Temporary Disqualification.** The Board may provide for the temporary disqualification of a director for any of the following reasons:

- 3.3.2.1 Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.
- 3.3.2.2 Directors who have been absent or who have not participated for whatever reason in more than fifty (50) percent of all meetings, both regular and special, of the Board during the immediately preceding semester, or who failed to attend for whatever reasons at least twenty (20) percent of all board meetings in any year.
- 3.3.2.3 Dismissal or termination for cause as director of any corporation covered by 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.
- 3.3.2.4 If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two (2) percent or its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- 3.3.2.5 If any of the judgments or orders cited in the grounds for permanent disqualification has yet to become final.
- 3.3.2.6 Persons who refused or failed to fully disclose the extent of their business interest or any material information to the appropriate agency, when required pursuant to the requirements of the Securities Regulation Code, or any other relevant provision of law, as well as when required by a circular, memorandum, rule

or regulation, applicable to such institutions; and such disqualification shall be in effect as long as the refusal or failure persists;

**3.3.2.7 Persons who are delinquent in the payment of their obligations as defined below:**

- a) Delinquency in the payment of obligations means the failure to pay according to the terms of the contracted obligation within at least sixty (60) days from formal demand.
- b) Obligations shall include all borrowings obtained by:
  - b.1 A Director for his / her own account or as a representative of agent of others or where he / she acts as a guarantor, endorser or surety for loans from such institutions;
  - b.2 The spouse or child under the parental authority of the Director;
  - b.3 Any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a Director;
  - b.4 A partnership in which a Director, his / her spouse, is the managing partner or a general partner owning a controlling interest in the partnership;
  - b.5 A corporation, association or firm wholly-owned or majority of the capital of which is owned by any of the group of persons mentioned in foregoing items b.1, b.2 and b.4.

**3.3.2.8 Persons who have been convicted in the first instance by a court for:**

- a) Any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification or bribery;

- b) A violation of the Bouncing Checks Law and the Anti-Graft and Corrupt Practices Act;
- c) A violation of banking laws, rules and regulations; or
- d) An offense where the penalty imposed is to serve a maximum term of imprisonment of more than six (6) years.

but whose conviction has not yet become final and executory; Provided that such temporary disqualification shall cease upon receipt of a certified true copy of a judgment amounting to an acquittal.

- 3.3.2.8 Persons with derogatory records as certified by, or on the official files of the Judiciary, the National Bureau of Investigation (NBI), the Philippine National Police (PNP), the Ombudsman, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies of foreign countries, for irregularities and violations of any law, rules and regulations that would adversely affect the reputation and integrity of the Director, of the ability to effectively discharge his / her duties.

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

### **3.4 Responsibilities, Duties and Functions of the Board**

- 3.4.1 General Responsibility.** It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders. The Board shall formulate the corporation's vision, mission, strategic objectives, policies and procedures that shall guide the activities, including the means to effectively monitor Management's performance.

The Board shall determine the corporation's purpose and value, as well as adopt strategies and policies including risk management policies, in order that that corporation survives and thrives despite financial crises and that its assets and reputation are adequately protected.

The Board shall determine important policies that bear on the character of the corporation to foster its long-term success, ensure its long term viability and strength, and secure its sustained competitiveness.

**3.4.2. Duties and Functions.** To ensure a high standard of best practice for the corporation, its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and functions:

- 3.4.2.1 Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for Management.
- 3.4.2.2 Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- 3.4.2.3 Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
- 3.4.2.4 Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the corporation's CEO or Chief Financial Officer shall exercise oversight responsibility over this program.
- 3.4.2.5 Identify the corporation's stakeholders in the community in which it operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- 3.4.2.6 Implement a system of internal checks and balances which may be applied in the first instance o the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the

corporation's internal control system in order to maintain its adequacy and effectiveness.

- 3.4.2.7 Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.
- 3.4.2.8 Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- 3.4.2.9 Constitute and Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- 3.4.2.10 Ensure the integrity of the corporation's accounting and financial reporting systems, including independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, and financial and operational control.
- 3.4.2.11 Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.
- 3.4.2.12 Meet regularly, ideally at least once a month, and at such times or frequency as may be needed, to properly discharge its responsibilities, with independent views expressed during such meetings being given due consideration. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- 3.4.2.13 Keep the activities and decisions of the Board within its authority under the Articles of Incorporation and by-laws, and in accordance with existing laws, rules and regulations.



3.4.2.14 Appoint a Compliance Officer who shall have the rank of at least Vice President. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

**3.4.3 Internal Control Responsibilities.** The Board shall continue and enhance its internal control environment by observing the following measures:

3.4.3.1 Adoption and improvement of minimum internal control mechanisms for the performance of the Board's oversight responsibility including, but not limited to, the following:

- a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the corporation's organizational and operational controls;
- b) Selection of a person who possesses the ability, integrity and expertise essential for the position of CEO;
- 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.

3.4.3.2 Formulation, implementation and enhancement of systems of effective organizational and operational controls depending on the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

3.4.3.3 Establish an internal audit system that can reasonably assure the Board, Management and stockholders that its 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.

### **3.5 Specific Duties and Responsibilities of a Director**

3.5.1 A director's office is one of trust and confidence. A director should act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress.

3.5.2. A director should observe the following norms of conduct:

3.5.2.1 *Conduct fair business transactions with the corporation, and ensure that his personal interest does not conflict with the interests of the corporation.*

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the corporation, or stands to acquire or gain financial advantage at the expense of the corporation.

3.5.2.2 *Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.*

A director should devote sufficient time to familiarize himself with the corporation's business. He should be constantly aware of and knowledgeable with the corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

3.5.2.3 *Act judiciously.*

Before deciding on any matter brought before the Board, a director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.

**3.5.2.4 *Exercise independent judgment.***

A director should view each problem or situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position. He should not be afraid to take an unpopular position. He should support plans and ideas that he thinks are beneficial to the corporation.

**3.5.2.5 *Have a working knowledge of the statutory and regulatory requirements that affect the corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission, and where applicable, the requirements of relevant regulatory agencies.***

A director shall also keep abreast with industry developments and business trends in order to promote the corporation's competitiveness.

**3.5.2.6 *Observe confidentiality.***

A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.

**3.6 Specific Duties and Responsibilities of a Director**

3.6.1 The members of the Board shall attend its regular and special meetings in person or through teleconferencing conducted in accordance with pertinent rules and regulations.

3.6.2 Independent directors shall always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, to promote transparency, the Board may require the presence of at least one independent director in all its meetings.

**3.7 Board Committees**

The Board shall maintain the following committees to assist it in good corporate governance:

### **3.7.1 Audit Committee**

The Audit Committee shall consist of at least three (3) directors, who shall preferably have accounting and finance backgrounds, one of whom shall be an independent director and another with audit experience. The Chair of the Audit Committee shall be an independent director. The committee shall have the following functions:

- 3.7.1.1 Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- 3.7.1.2 Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function includes regular receipt from Management of information on risk exposures and risk management activities.
- 3.7.1.3 Perform oversight functions over the corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- 3.7.1.4 Review the annual internal audit plan to ensure its conformity with the objectives of the corporation. The plan shall include the audit scope, resources and budget necessary to implement it.
- 3.7.1.5 Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- 3.7.1.6 Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;

- 3.7.1.7 Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security;
- 3.7.1.8 Review the reports submitted by the internal and external auditors;
- 3.7.1.9 Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - a) Any change/s in accounting policies and practices
  - b) Major judgmental areas
  - c) Significant adjustments resulting from the audit
  - d) Going concern assumptions
  - e) Compliance with accounting standards
  - f) Compliance with tax, legal and regulatory requirements
- 3.7.1.10 Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- 3.7.1.11 Evaluate and determine the non-audit, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The 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;
- 3.7.1.12 Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.
- 3.7.1.13 The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference coming from outside parties.

### **3.7.2 Nomination Committee**

The Nomination Committee shall be composed of at least three (3) voting Directors, one of whom must be an independent director. The committee shall have the following functions:

- 3.7.2.1 It shall review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval.
- 3.7.2.2 It shall assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.
- 3.7.2.3 It shall consider the following guidelines in the determination of the capability of a director to serve as such:
  - a) The nature of the business of the corporation of which he is a director;
  - b) Age of the director;
  - c) Number of directorships / active memberships and officers in other corporations or organizations; and
  - d) Possible conflict of interest.

Any optimum number of directorships shall be related to the capacity of a director to perform his duties diligently in general.

### **3.7.3 Compensation or Remuneration Committee**

The Compensation Committee shall be composed of at least three (3) voting Directors, one of whom should be an independent director. The committee shall have the following functions:

- 3.7.3.1 It shall establish a formal and transparent procedure for developing a policy on remuneration or directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates;
- 3.7.3.2 Designate the amount of remuneration, which shall be in sufficient level to attract and retain directors and officers who are needed to run the company successfully, subject to approval of the Board of Directors;
- 3.7.3.3 Develop a form on Full Business Interest Disclosure as part of pre-employment requirements for all incoming officers, which, among others, shall compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of the duties once hired;



3.7.3.4 Disallow any director to decide his or her own remuneration;

3.7.3.5 Provide in the Corporation's annual reports prescribed by regulatory agencies, information and proxy statements a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

3.7.3.6 Review of existing Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be met periodically in their respective posts.

### **3.8 The Chairman of the Board**

3.8.1 The duties and responsibilities of the Chairman in relation to the Board include, among others, the following:

3.8.1.1 Ensure that the meetings of the Board are held in accordance with the by-laws or as he may deem necessary;

3.8.1.2 Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the Chief Executive Officer (CEO), Management and directors; and

3.8.1.3 Maintain qualitative and timely lines of communication and information between the Board and Management.

3.8.2 The roles of the Chairman and CEO shall, as much as practicable, be separate to foster an appropriate balance or power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions shall be made between the Chairman and CEO upon their election. If the positions of the Chairman and CEO are unified, the proper checks and balances shall be laid down to ensure that the Board gets the benefit of independent views and perspectives.

### **3.9 The Corporate Secretary**

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the corporation. He shall have the following responsibilities:

- 3.9.1 Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the corporation;
- 3.9.2 Be loyal to the mission, vision and objectives of the corporation;
- 3.9.3 Work fairly and objectively with the Board, Management and stockholders and other stakeholders;
- 3.9.4 Have appropriate administrative and interpersonal skills;
- 3.9.5 If he is not at the same time the corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities
- 3.9.6 Have a working knowledge of the operations of the corporation.
- 3.9.7 Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval.
- 3.9.8 Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- 3.9.9 Ensure that all Board procedures, rules and regulations are strictly followed by members;
- 3.9.10 If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in this Code; and
- 3.9.11 Submit to the Commission, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C in a separate filing.

### **3.10 The Compliance Officer**

The Board shall appoint a Compliance Officer who shall report directly to the Chair of the Board. He shall perform the following duties:

- 3.10.1 Monitor compliance by the corporation with this Code and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation.
- 3.10.2. Appear before pertinent regulatory agencies when summoned in relation to compliance with this Code; and
- 3.10.3. Issue a certification every January 30<sup>th</sup> of the year on the extent of the corporation's compliance with this Code for the completed year and, if there are any deviations, explain the reasons for such deviation.

## **ARTICLE 4: ADEQUATE AND TIMELY INFORMATION**

To enable the members of the Board to properly fulfill their duties and responsibilities, Management should provide them with complete, adequate and timely information about the matters to be taken in their meetings.

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by a member of the Board to enable him to properly perform his duties and responsibilities. Hence, the members should be given independent access to Management and the Corporate Secretary.

The information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, should have access to independent professional advice at the corporation's expense.

## **ARTICLE 5: ACCOUNTABILITY AND AUDIT**

### **5.1 The Board**

The Board is primarily accountable to the stockholders. It shall provide them with a balanced and comprehensive assessment of the corporation's performance, position and prospects on a quarterly basis, including interim and other reports

that could adversely affect its business, as well as reports to regulators that are required by law. Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

## **5.2 The Management**

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

- 5.2.1 The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained;
- 5.2.2 An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders shall be maintained;
- 5.2.3 On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- 5.2.4 The corporation shall consistently comply with the financial reporting requirements of the Commission;
- 5.2.5 The external auditor should be rotated every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposure, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does

not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

### **5.3 The External Auditor**

- 5.3.1 The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.
- 5.3.2 The external auditor shall not, at the same time, provide internal audit services to the corporation.
- 5.3.3 Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to this independence.
- 5.3.4 The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, shall be changed with the same frequency.
- 5.3.5 If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.
- 5.3.6 If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

### **5.4 The Internal Auditor**

- 5.4.1 The corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors through which its Board, Management and Stockholders shall be

provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

5.4.2 The Internal Auditor shall submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

#### **ARTICLE 6: TRAINING PROCESS**

- 6.1 If necessary, funds shall be allocated by the Board upon the recommendation of the CFO or his equivalent officer for the purpose of conducting an orientation program or workshops to operationalize this Manual.
- 6.2 A director shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institute.

#### **ARTICLE 7: STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS**

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

##### **7.1.1 Voting Right**

- 7.1.1.1 Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- 7.1.1.2 Cumulative voting shall be used in the election of directors.
- 7.1.1.3 A director shall not be removed without cause if it will deny minority shareholders representation in the Board.



### **7.1.2 Pre-emptive Right**

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

### **7.1.3 Power of Inspection**

All stockholders shall be allowed to inspect corporate books and records including minutes of the 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.

### **7.1.4 Right to Information**

7.1.4.1 The stockholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the corporation's share, dealings with the corporation, relationship among directors and key officers and the aggregate compensation of directors and officers.

7.1.4.2 The minority stockholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.

7.1.4.3 The minority stockholders shall have access to any and all informational relating to matters for which the management is accountable for. If not included, then the minority stockholders shall be allowed to propose such matters in the agenda of a stockholders' meeting, being within the definition of "legitimate purposes" and in accordance with law, jurisprudence and best practice.

### **7.1.5 Right to Dividends**

7.1.5.1 Stockholders shall have the right to receive dividends subject to the discretion of the Board.

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

#### **7.1.6 Appraisal Right**

The stockholders shall have appraisal right or the 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:

7.1.6.1 In case any amendments 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 terms of corporate existence;

7.1.6.2 In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets provided in the Corporation Code; and

7.1.6.3 In case of merger or consolidation.

**7.2** The Board shall continue to be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders shall be encouraged to personally attend such 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 that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholder's favor.

**7.3** It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

- 7.4 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 the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.
- 7.5 Although all stockholders shall be treated equally or without discrimination, the Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

#### **ARTICLE 8: DISCLOSURE AND TRANSPARENCY**

- 8.1 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, earning results, acquisition of assets, off balance sheet transactions, related party transactions and direct and indirect remuneration of members of the Board and Management.
- 8.2 The reports or disclosures required under this Manual shall be prepared and submitted to the pertinent regulatory agencies by the responsible Committee or Officer through the Corporation's Compliance Officer.
- 8.3 All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
- 8.4 The Board shall commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Securities and Exchange Commission for the interest of its stockholders and other stakeholders.
- 8.5 This Manual shall be available for inspection by any stockholder of the Corporation at reasonable times on business days.
- 8.6 The Compliance Officer shall provide copies of the Manual Board to all directors, division and department heads to ensure the thorough dissemination of the Manual to all employees and related third parties, and to enjoin compliance in the process.

- 8.7 An adequate number of printed copies of this Manual must be produced under the supervision of the Compliance Officer, with a minimum of at least one (1) hard copy of the Manual per department.

## **ARTICLE 9: MONITORING AND ASSESSMENT**

- 9.1 Each committee shall report regularly to the Board of Directors.
- 9.2 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 Article 9 of this Manual.
- 9.3 The establishment of such evaluation systems, including the features thereof, shall be disclosed in the Corporation's annual report (SEC Form 17-A) or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.
- 9.4 This Manual shall be subject to periodic review by the Board.
- 9.5 All business processes and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to be compliant with the Manual..

## **ARTICLE 10: PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

- 10.1 To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the corporation's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:
- 10.1.1 In case of first violation, the subject person shall be reprimanded.
- 10.1.2 Suspension from office shall be imposed in case of a second violation. The duration of the suspension shall depend on the gravity of the violation.
- 10.1.3 For a third violation, the maximum penalty of removal from office shall be imposed,
- 10.2 The commission of a third violation of this Manual by any member of the Board of the Corporation or its and affiliates shall be sufficient cause for removal from directorship, subject to the provisions of the Corporation Code.

- 10.3** The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation for further review and approval by the Board.

Signed:



**ELPIDIO C. JAMORA, JR.**  
Chairman of the Board