

**MANUAL OF  
CORPORATE GOVERNANCE**

**LODESTAR INVESTMENT  
HOLDINGS CORPORATION**

**29 MAY 2017**

## **1. OBJECTIVE**

This Manual shall institutionalize the principles of good corporate governance in the entire organization.

The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization

## **2. MISSION AND VISION**

Lodestar Investment Holdings Corporation (the Company) shall strive to become one of the leaders in its industry through the development and implementation of strategic plans, operating goals and objectives across its entire organization of competent directors, management and personnel.

## **3. INTRODUCTION**

Lodestar Investment Holdings Corporation was incorporated on 3 January 1974 established primarily as a mining and natural resources exploration company. The Company was engaged in the development of several gold and chromite mining claims in Masbate, Cebu, Negros Occidental and Palawan. The Company also filed with the then Manila and Makati Stock Exchanges, now referred to as the Philippine Stock Exchange (“PSE”) an application for the listing of its shares. The Company was able to complete its initial public offering and the listing of the Company’s shares was made effective on 26 May 1989.

In October 2003, the name and primary purpose of the Company were changed to reflect a change from a mining company to an investment holding company, among others. As an investment holding company, the Company was afforded flexibility in pursuing new business ventures that would enhance shareholder value over time.

## **4. GOVERNANCE FRAMEWORK**

Corporate Governance is 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 community in which it operates.

This document, otherwise known as Lodestar Investment Holdings Corporation Manual of Corporate Governance (MCG), sets out the key principles, guidelines, mandates, roles, obligations and standards of best practices entailed of the Lodestar’s Board of Directors, Committees, and Management. all in the context of the ensuring that the stewardship responsibilities of Lodestar to its shareholders are performed within or subject to specific standards of care and competence.

These guidelines will be an evolving set of corporate governance principles, subject to modification and updating as circumstances warrant. The Corporate Governance Committee will be responsible for ensuring compliance with this MGC and shall conduct periodic reviews after the close of audit once every year.

Overall, the guiding principles in the implementation, review and amendment of the MGC shall be:

- a. Set out the roles and responsibilities of key persons such as Directors, Officers and Management of the Company following international standards;
- b. Recognize the importance of regular reviews of ethics and performance
- c. Explore avenues for improvement through the conduct of continuing education on relevant matters;
- d. Ensure accountability; and
- e. Instil values and practice efficiency and integrity among key persons

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.

## 5. Definition of Terms:

**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 senior 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.

**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.

**Management** – a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.

**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.

**Executive director** – a director who has executive responsibility of day-to-day operations of a part or the whole of the organization.

**Non-executive director** – a director who has no executive responsibility and does not perform any work related to the operations of the corporation.

**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.

**Internal control** – a process designed and effected by the board of directors, senior 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.

**Enterprise Risk Management** – a process, effected by an entity's Board of Directors, 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.

**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 control 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.

**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 should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

**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.

## 6. THE BOARD OF DIRECTORS

It is the Board of Directors' (Board) responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with corporate objectives and the best interests of its stockholders and other stakeholders. The Board's role is one of stewardship. It is mandated to take care of the interests of the shareholders and protect their investments through the implementation of sound corporate policies and

plans while maintaining its independent assessment on Management's performance.

## **6.1 Board Composition**

The Board shall be composed of such number of directors as provided under the Company's By-laws. The Corporation shall have at least two (2) independent directors or such a number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2).

The Board should 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.

The non-executive directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

## **6.2 Specific Duties and Functions of the Board:**

To ensure a high standard of best practice for the Company, its stockholders and other stakeholders, the Board shall conduct itself with honesty and integrity in the performance of the following duties and functions:

- a. Install and implement a process for the selection of directors to ensure a mix of competent directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- b. Appoint competent, professional, and highly motivated management officers, and adopt an effective succession planning program for Management;
- c. Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;
- d. Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program that will keep them informed of important developments in the Corporation;
- e. Adopt a system of internal checks and balances. A regular review of the effectiveness of such system shall be conducted to ensure the integrity of the decision-making and reporting processes at all times. There shall be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness;
- f. Identify risk areas and key 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;
- g. Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;

- h. Keep Board authority within the powers of the Corporation as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations.
- i. Do sound strategic policies and guidelines to the Corporation on major capital expenses. Establish programs that can sustain 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.
- j. Identify the corporation's stakeholders in the community in which the Corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely, and effective communication with them.
- k. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation, joint ventures, subsidiaries, associates, affiliates, major shareholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board;
- l. Constitute a Governance Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities;
- m. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its shareholders, and the Corporation and third parties, including the regulatory authorities;
- n. 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 acts as Compliance Officer.

### **6.3 Duties and Responsibilities of a Director**

A director's office is one of trust and confidence. He/ she shall act in a manner characterized by transparency, accountability, and fairness. He/ she should exercise leadership, prudence, and integrity in directing the Corporation towards sustained progress.

A director shall have the following duties and responsibilities:

- a. To conduct fair business transactions with the Corporation and to ensure that personal interest does not bias Board decisions nor conflict with the interests of the Corporation;
- b. To devote time and attention necessary to properly discharge his/ her duties and responsibilities;
- c. To act judiciously;
- d. To exercise independent judgment;
- e. To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the rules, regulation and

requirements of the SEC, and where applicable, the requirements of other regulatory agencies;

- f. To observe confidentiality, and;
- g. To ensure the continuing soundness, effectiveness, and adequacy of the Corporation's control environment.

#### **6.4 Qualifications**

The directors shall possess such qualifications for membership in the Board as prescribed by the Corporation Code, Securities Regulation Code and other relevant laws, rules and regulations. The non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board. Among others, the following qualifications shall be considered in a director's nomination and election to the Board:

- a. College education or equivalent academic degree;
- b. Practical understanding of the business of the corporation;
- c. Membership in good standing in relevant industry, business or professional organizations; and
- d. Vast and successful business experience.

#### **6.5 Disqualifications**

The following shall be 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/ her fiduciary relationship with a bank, quasi bank, trust company, investment house or as an affiliated person or any of them;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by final judgment or order of the SEC 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 wilfully violating the laws that govern securities and banking activities;
- c. If such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation

Code, Securities Regulation Code or any other law administered by the SEC or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by SEC or BSP, or has otherwise 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 or participant of the organization;

- d. Any person judicially convicted by final judgment of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- e. Any person finally found by the SEC or a court or other administrative body to have wilfully violated, or wilfully aided, abetted, counselled, induced or procured the violation of any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the SEC or BSP, or any rule, regulation or order of the SEC or BSP;
- f. Any person judicially declared to be insolvent;
- g. Any person earlier elected as independent director who becomes an officer, employee, or consultant of the same Corporation;
- h. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- i. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his/ her election or appointment.

## **6.6 Temporary Disqualifications**

The following shall be grounds for the temporary disqualification of a director:

- a. Refusal to fully disclose the extent of his/ her business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his/ her refusal persists;
- b. Absence or non-participation for whatever reason/s for more than fifty (50%) percent of all meetings, both regular and special, of the Board of Directors during his/ her incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for the purposes of the succeeding election;
- c. Dismissal/ termination from directorship in another listed corporation for valid cause. This disqualification shall be in effect until he/ she cleared himself of any involvement in the alleged irregularity;
- d. Being under preventive suspension by the Corporation;



- e. Conviction that has not yet become final referred to in the grounds for the disqualification of directors; and
- f. If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries or affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.

A temporarily disqualified director shall, within sixty (6) business days from such disqualification, take appropriate action to remedy or correct the disqualification. If he/ she fails to do so for unjustified reasons, the disqualification shall become permanent.

## **6.7 Membership Criteria**

The members of the Board shall be elected from a list of nominees who have been identified, screened and recommended for election by the Nominations Committee. Any shareholder of record may nominate a candidate for directorship in the annual shareholders' meeting of the Company. Nominees shall be selected on the basis of the set of criteria and other relevant factors as laid down in this MGC.

It is in the best interests of the Company and its shareholders to obtain highly qualified individuals to serve on the Board. These are only threshold criteria, however, and the Nomination Committee will also consider the contributions that a candidate can be expected to make to the collective functioning of the Board based upon the totality of the candidate's credentials, experience and expertise, the composition of the Board at the time, and other relevant circumstances. Among others, the nominee must:

- a. Have high personal and professional integrity, and shall have demonstrated, through specific experience or otherwise, relevant knowledge, skills, expertise, ability to make independent analytical inquiries, understanding of our business environment, and willingness to devote adequate time and effort to Board responsibilities;
- b. Committed to promoting and enhancing the long term value of the Company for its shareholders;
- c. Should not have any interests that would materially impair his or her ability to (a) exercise independent judgment, or (b) otherwise discharge the fiduciary duties owed as a director to the Company and its shareholders;
- d. Be able to represent fairly and equally all shareholders of the Company without favoring or advancing any particular shareholder or other constituency of the Company;
- e. Have sound judgment, derived from management or policy-making experience (which may be as an advisor or consultant), that demonstrates an ability to function effectively in an oversight role;
- f. Conduct fair business transactions with the corporation, and ensure that his personal interest does not conflict with the interests of the corporation;

- g. 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;
- h. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities;
- i. 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;
- j. 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; and
- k. Be abreast with industry developments and business trends in order to promote the corporation's competitiveness.

In addition to the minimum qualifications for each nominee described above, at least one Non-Executive Director should have experience in the sector or industry in which the Company belongs to.

The Nomination Committee is responsible for reviewing with the Board, on a periodic basis, the appropriate skills and characteristics required of the Directors in the context of the current needs of the Company. In determining whether a Director should stand for re-election, appropriate consideration shall be given to the Director's attendance at Board meetings and his or her performance as a Director.

## **6.8 The Chairman of the Board**

The roles of Chairman and Chief Executive Officer (CEO) should, as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board. A clear delineation of functions should be made between the Chairman and CEO upon their election.

If the positions of Chairman and CEO are unified, the proper checks and balances should be laid down to ensure that the Board gets the benefit of independent views and perspectives.

The Board selects its Chairman in the manner that it determines to be in the best interest of the Company's shareholders. The Chairman shall facilitate and ensure the effective performance of the Board by leading it towards attaining its mission and realizing its vision.

The Chairman's role is very vital in ensuring that decision-making is done on the Board level through the use of processes and controls laid down in this MGC. The Chairman must foster a constructive board culture to ensure the effective and productive performance of the Board's oversight functions over management. The Chairman should have excellent communication and interpersonal skills, display good organizational abilities, ability to manage situations and must have tact and diplomacy. These qualities are vital in so that the Chairman of the Board may perform his functions which shall, among others, include the following:

- a. Effectively preside over Board meetings so that the Board works as a cohesive team;
- b. 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;
- c. Ensure that the members of the Board are timely, properly and accurately informed of developments in the Company;
- d. Promote independence in the decision-making of the members of the Board;
- e. Ensure that productive output and time management are recognized in Board meetings;
- f. Maintain a balance among the varying views of the members of the Board
- g. Defer matters that should properly be taken up and decided by management or the various committees;
- h. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- i. Maintain appropriate meeting decorum;
- j. Ensure effective communication with shareholders;
- k. Ensure constructive relations between the Board and management; and
- l. Promote high standards of corporate governance.

## **6.9 Independent Directors**

There shall be at least two (2) independent directors or such a number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2). The Independent Directors shall have the qualifications and none of the

disqualifications of an Independent Director. Among others, an Independent Director must have the qualifications as prescribed by the Securities Regulation Code, its implementing rules and regulations, other relevant laws, rules and regulations in addition to the qualifications mentioned in the Board Membership Criteria. He should also be a person who, apart from his/ her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/ her exercise of independent judgment in carrying out his/ her responsibilities as a director of the corporation and includes, among others, any person who:

- a. Is not a director or officer of the Corporation or of its related companies or any of its substantial shareholders except when an independent director of any of the foregoing;
- b. Does not own more than two percent (2%) of the shares of the Corporation and/ or its related companies or any of its substantial shareholders;
- c. Is not related to any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
- d. Is not acting as a nominee or representative of any director of substantial shareholder of the Corporation, and/ or any of its related companies and/ or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
- e. Has not been employed in any executive capacity by the Corporation, any of its related companies and/ or by any of its substantial shareholders within the last two (2) years;
- f. Is not retained, either personally or through his/ her firm or any similar entity, as professional adviser, by the Corporation, any of its related companies and/ or any of its substantial shareholders, within the last two (2) years; or
- g. Has not engaged and does not engage in any transaction with the Corporation and/ or with any of its related companies and/ or with any of its substantial shareholders, whether by himself and/ or with other persons and/ or through a firm of which he/ she is a partner and/ or a company of which he/ she is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.

Further, an Independent Director shall have the following qualifications:

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

- c. He shall possess integrity/ probity; and
- d. He shall be assiduous.

In addition to the grounds for temporary or permanent disqualification of a director, an independent director shall likewise be disqualified during his tenure under the following instances or causes:

- a. He becomes an officer or employee of the Corporation;
- b. His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the Corporation;
- c. Fails, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his incumbency;

An independent director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Corporation, management or controlling shareholder at the time of his election or appointment and/ or re-election as a director.

The Board's independent directors should serve for a maximum cumulative term of nine years. After which, the independent director should be perpetually barred from re-election as such in the same company, but 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 should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

## **6.10 Lead Independent Director**

The Board should designate a lead director among the independent directors.

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.

## **6.11 Nomination and Election Procedures**

The following rules shall apply with respect to the nomination and election of all members of the Corporation's Board of Directors:

- a. All nominations for directors to be elected by the stockholders of the Corporation shall be submitted in writing to the Secretary of the Corporation at the principal office of the Corporation not earlier than forty (40) days nor later than twenty (20) days prior to the date of the

regular or special meeting of stockholders for the election of directors. Nominations which are not submitted within such nomination period shall not be valid. Only stockholders of record entitled to notice of and vote at the regular or special meeting of the stockholders for the election of the directors shall be qualified to be nominated and elected a director of the Corporation;

- b. Any registered stockholder may be nominated and elected to the Board of Directors. The Nomination Committee, by majority vote, shall pass upon the qualification of the nominee to the Board. It may also, in the exercise of its discretion and by majority vote of its members, disqualify a nominated shareholder who, in the Nomination Committee's judgment, represents an interest adverse to or in conflict with those of the Corporation;
- c. Approval for nomination of directors shall be conducted by the Nomination Committee prior to the annual shareholders' meeting. All nomination shall be signed by the nominating shareholders together with the acceptance and conformity of the would be nominees and shall be submitted to the Nomination Committee and the Corporate Secretary in accordance with the period mandated by the By-laws;
- d. The Nomination Committee shall pre-screen the qualifications and prepare a Final List of all Candidates for directors;
- e. The Final List of Candidates to be submitted to the Board of Directors shall contain all information regarding the background and experience of the nominees required to be ascertained and made known under the Securities Regulation Code and relevant rules and regulations of the SEC. Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the SEC and to all shareholders;
- f. It shall be the responsibility of the Chairman of the shareholders' meeting to inform all shareholders in attendance of the mandatory qualifications and procedures for nominating and electing directors;
- g. Specific slots for independent directors shall not be filled up by unqualified nominees;

## **6.12 Orientation of New Members**

The Company shall conduct an orientation for newly elected members of the Board. This orientation shall familiarize each new Director with, among other things, the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct, corporate governance and principal officers. Such new Director shall, as appropriate, attend outside director education courses sponsored by recognized organizations. It shall also include meetings with and presentations by key management and visits to Company facilities.

## **6.13 Board Education**

The Board recognizes the importance of continuing education of its members. Each Director is expected to participate, as appropriate, in continuing education in order to maintain the necessary level of expertise to perform his or her responsibilities as a Director. The Board acknowledges that Director continuing education may be provided in a variety of different forms, including external or internal education programs, presentations or briefings on particular topics, educational materials, meetings with key management and visits to Company facilities. The Company, under the direction of the Nomination Committee, will assist the Board in pursuing continuing education programs for its Directors.

The orientation program for first-time directors and relevant annual continuing training for all directors aim to promote effective board performance and continuing qualification of the directors in carrying-out their duties and responsibilities. The orientation program for first-time directors shall be for at least eight hours, while the annual continuing training shall be for at least four hours.

## **6.14 Board Meetings**

### **6.14.1 General**

- a. The members of the Board should attend regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the SEC;
- b. Independent directors should always attend Board meetings, unless otherwise provided in the By-Laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings;

### **6.14.2 Agenda Items**

Agenda Items are designated by the Chairman in consultation with the the CEO (if not also the Chairman), management, or others as determined by the Chairman. Any Director may suggest agenda items and may raise at meetings other matters they consider worthy of discussion.

### **6.14.3 Distribution of Meeting Materials and Other Relevant Information**

The Corporate Secretary shall be responsible for the timely and proper distribution of notices, agenda and other relevant meeting materials for discussion during the pertinent board meeting through the recognized modes of transmission of information ie., personal delivery, fax, mail of courier. Receipt should be ensured to allow for ample review by the members of the Board to enable them to fully comprehend the matters to be discussed during the relevant meeting.

To prepare for meetings, Directors shall review all materials sent in advance. The Board believes that maintaining confidentiality of information and Board deliberations is critical. The proceedings and deliberations of the Board and all

Board Committees shall, accordingly, be confidential. Each Director shall continue to maintain the confidentiality of information received in connection with his or her service as a Director. Information learned during the course of service on the Board is to be used solely in furtherance of the Company's business.

#### **6.14.4 Stockholders' Rights and Protection of Minority Stockholders' Interests**

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

- a. Right to vote on all matters that require their consent or approval;
- b. Pre-emptive right to all stock issuances of the corporation; (iii) Right to inspect corporate books and records;
- c. Right to information;
- d. Right to dividends; and
- e. Appraisal right.

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

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.

The Board should 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 should 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.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation.

#### **6.15 Access to Management and Independent Advisors**

Reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may have to be made by members of the Board to enable them to properly perform their duties and responsibilities. Hence, the Company expects and encourages its Directors to have regular contact with the Company's senior management. Accordingly, the Directors



shall have full access to the senior management of the Company. At the invitation of the Board, members of senior management recommended by the CEO shall attend Board meetings or portions thereof for the purpose of participating in discussions. Generally, presentations of matters to be considered by the Board are made by the executive responsible for that area of the Company's operations.

The Board, any Board Committee or group of Independent Directors, as appropriate, and after discussion with the Chairman, and at the expense of the Company, may retain the services of legal counsel, accountants, auditors or any other independent professional advisors to assist on matters involving their responsibilities as Board or Board Committee members and the Chairman and CEO shall be promptly advised of any such engagement unless the Chairman, as applicable, believes that special circumstances exist where it would not be appropriate to provide such advice. The Company shall have in place procedures to assure that funding is made available to meet the fees and expenses of any such person or firm so retained.

Management shall be responsible for assuring that, as a general rule, information and data that are important to the Board's understanding of the Company's business and to all matters expected to be considered and acted upon by the Board be distributed in writing to the Board sufficiently in advance of each Board meeting and each action to be taken by written consent to provide the Directors a reasonable time to review and evaluate such information and data. Management shall make every attempt to see that this material is as concise as possible while still providing the desired information. In the event of a pressing need for the Board to meet on short notice or if such materials would otherwise contain highly confidential or sensitive information, it is recognized that written materials may not be available in advance.

## **6.16 Performance Assessment**

The Governance Committee, working with the Chairman shall develop and oversee a performance assessment of the effectiveness of the Board. This assessment shall focus on the performance of the Board as a whole, concentrating on areas where performance might be improved. The Board shall administer an annual self-evaluation and evaluation of its Committees to determine the same. The Chairman shall present the results of such annual assessment to the Board for its review and discussion. (Please see more discussions on Section 5.2.). A copy of the Company's Code of Business Conduct and Ethics is hereto attached as Annex "A"

## **6.17 Compensation and Remuneration**

Directors shall be entitled to receive appropriate compensation for their services as a Director, as may be determined from time to time by the Compensation or Remuneration Committee, as well as reimbursement of reasonable travel and related expenses incurred in connection with their service as Director. The Company believes that compensation for Independent Directors should be competitive and should encourage increased ownership of the Company's stock through payment of a portion of the Board compensation in stock, deferred compensation stock equivalents or options to purchase the Company's stock.

While the Board does not believe it is appropriate to specify a particular level of equity ownership for individual Directors, each Director shall over time have an equity interest in the Company after initial election to the Board through any stock-based compensation provided and shall be encouraged to retain such equity interest while serving on the Board.

The Board shall establish specific approval limits in terms of peso amounts and/or other specified terms and conditions with respect to management's authority to approve certain expenditures or transactions depending on the nature and size of the proposed expenditure or transaction. These limits shall permit some flexibility within approved budgets but otherwise must not be exceeded without prior Board approval or ratification.

## **7. STANDING COMMITTEES OF THE BOARD**

The Board of Directors shall have the following standing committees:

- a. Executive Committee
- b. Audit Committee
- c. Governance Committee
- d. Finance Committee
- e. Remuneration Committee
- f. Nomination Committee
- g. Risk Management Committee (See discussions under Section 9).

The Board shall appoint the Chairpersons and members of each standing committee on an annual basis. Any member shall cease to be a member of the standing committee the moment he ceases to be a member of the Board. Any vacancies may be filled up by appointment into the position by a vote of the majority of the Board.

The Chair of each standing committee shall be the head with the power to call for meetings, preside over meetings, and reporting to the Board. Each committee will be charged with reviewing the adequacy of its mandate annual and recommend procedures, changes, or amendments to its rules as may be found appropriate.

Standing committees shall have quarterly meetings that may be called close to the quarterly financial reporting period of the Company. They may meet as often as they deem appropriate to discharge their responsibilities at the offices of the Company or anywhere as may be deemed fit within the Philippines. The Corporate Secretary shall act as the secretariat of the standing committees in charge of keeping records of the committees and minutes of their meetings.

### **7.1 The Executive Committee**

An Executive Committee comprising of four (4) members of the Board and the President of the Company, who shall be the Chairman, shall be created by the

Board, to hold office for one (1) year and/ or until their respective successors shall be designated. During the intervals between the meetings of the Board of Directors, the Executive Committee shall exercise all the powers of the Board of Directors in the Management and direction of the affairs of the Company, in all matters in which specific directions shall not have been given by the Board of Directors.

All actions by the Executive Committee shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision or alteration by the Board, provided that no rights of third parties shall be affected by any such revision or alteration. The proceedings of the Executive Committee shall be kept in a book provided for the purpose. Vacancies in the Executive Committee shall be filled by the Board of Directors. A majority of the committee members shall be necessary to constitute a quorum. It shall adopt its own rules of procedure.

## **7.2 The Governance Committee**

The Governance Committee shall consist of three members of the Board, two of whom, including the Chairman, shall be Independent Directors. The Governance Committee shall assist the Board with respect to governance matters most especially in the implementation of practices and standards to be observed in an effective stewardship environment.

The Governance Committee should be a cohesive and independent team of planners and program implementers that can play a critical role in fostering a healthier and better culture among the Board members and Management.

The Governance Committee shall be in charge of:

- a. Undertaking and approving an annual performance assessment of the Board, its Committees and the Individual Directors. The Performance Assessment Guidelines and scorecard shall be prepared in accordance with the mandates of this MGC;
- b. Preparation and approval of an Annual Program of Governance including the planning of an annual continuing education program for the Board and Management;
- c. Approval of policies, programs and processes to be contained in a manual and directors' handbook insofar as the same will supplement this MGC;
- d. Recommending governance practices and policies to the Company's subsidiaries and investment entities;
- e. Assessing the competency requirements and compliance levels of the members of the Board insofar as continuing Board education is concerned;
- f. Reviewing policies of the Board and the Standing Committees insofar as they relate to governance matters;

- g. Reviewing governance standards published by other Philippine listed companies with a view of assessing their relevance and developing a more current set of standards for the Company;

### **7.3 The Nomination Committee**

A Nomination Committee shall be organized consisting of at least three (3) members, one of whom shall be an independent director. The Nomination Committee shall have the following functions:

- a. formulate screening policies to enable the Committee to effectively review and evaluate the qualification of the nominees nominated to the board and other appointments which require Board approval
- b. assess the effectiveness of the Board processes and procedures in the election and replacement of directors; and
- c. conduct nominations for independent directors prior to the stockholders' meeting in accordance with the procedure set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code, as the same may be amended from time to time.

The decision of the Nomination Committee as to nominees to the Board of Directors, once confirmed by the Board of Directors, shall be final and binding upon the shareholders.

The Nomination Committee shall promulgate the guidelines or criteria to govern the conduct of nominations; provided, that any such promulgated guidelines or criteria governing the conduct of nomination of Independent Directors shall be properly disclosed in the Corporation's information or proxy statement or such other reports required by the Securities and Exchange Commission.

The Nomination Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees.

After the nomination, the Nomination Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees, including, but not limited to, the following information: (i) Name, age and citizenship; (ii) List of positions and offices that each such nominee held, or will hold, if known, with the Corporation; (iii) Business experience during the past five (5) years; (iv) Directorship held in the other companies; (v) Involvement in legal proceedings; and (vi) Security ownership.

The Final List shall be made available to the Securities and Exchange Commission and to all stockholders through the filing and distribution of the Information Statement or in such other reports required by the Securities and Exchange Commission. The name of the person or group of persons who recommended the nomination of the Directors shall be identified in such report including any relationship with the nominee.

The Chairman of the stockholder' meeting has the responsibility to inform all stockholders in attendance of the mandatory requirement of electing

Independent Directors and to ensure that the Independent Directors are elected during the stockholders' meeting.

#### **7.4 The Audit Committee**

An Audit Committee shall be constituted from three (3) members of the Board of Directors. The members of the Audit Committee shall be appointed by at least a majority vote of the Board of Directors for a term co-terminus with the term of the members of the Board of Directors. The Audit committee shall assist the Board in performing an oversight responsibility for the financial reporting process, supervise the managements activities, monitor and evaluate the adequacy and effectiveness of the corporations internal control system, coordinate, monitor and facilitate compliance with laws rules and regulations and review the reports and financial statements before their submission to the Board.

The members of the Audit Committee shall preferably have accounting and finance background, one of whom shall be an Independent Director and another should have related audit experience. The Chairman of the Audit Committee should be an Independent Director. He should be responsible for inculcating in the minds of the members of the Board the importance of the management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

The Audit Committee shall have the following specific functions:

- a. Provide oversight over the senior management's activities in managing credit, market liquidity, operational, legal and other risks of the Corporation. The function shall include receiving from senior management periodic information on risk exposures and risk management activities.
- b. Provide oversight of the Corporation's internal and external auditors;
- c. Review and approve audit scope and frequency, and the annual internal audit plan;
- d. Discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;
- e. Be responsible for the setting-up of an internal audit department and consider the appointment of internal auditor as well as an independent external auditor, the audit fee and any question of resignation or dismissal;
- f. Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system;
- g. Receive and review reports of internal and external auditors and regulatory agencies, where applicable and ensure that management is taking appropriate corrective actions, in timely manner in addressing control and compliance functions with regulatory agencies;

- h. Review the quarterly, half year and annual financial statements before submission to the Board, focusing particularly on any change/s in accounting policies and practices;
- i. Significant adjustment resulting from the audit;
- j. Going concern assumption;
- k. Compliance with the accounting standards; and
- l. Compliance with tax, legal, and stock exchange requirements;

The Audit Committee shall be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. It may also constitute a Compliance Unit for this purpose, it shall:

- a. Evaluate and determine non-audit work by external auditor and keep under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the Corporation's total expenditure on consultancy. The non-audit work should be disclosed in the annual report.
- b. Establish and identify the reporting line of the chief audit executive so that the reporting level allows the internal audit activity to fulfill its responsibilities. The chief audit executive shall report directly to the Audit Committee functionally. The Audit Committee shall ensure that the internal auditors shall have free and full access to all the Corporation's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results, and shall provide a venue for the Audit Committee to review and approve the annual audit plan.

The Charter of the Audit Committee is hereto attached as Annex "B".

## **7.5 The Remuneration Committee**

The Remuneration Committee shall be composed of at least three (3) members, one of whom shall be an independent director. The Remuneration Committee is responsible for establishing the procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment.

There shall be a formal and transparent procedure for developing policies on executive remuneration packages for directors and executive officers. To prevent the risk of conflict of interests, concerned directors shall not participate in deciding compensation packages involving his own.

Remuneration packages should be carefully studied to provide sufficient compensation for the services of and attract, retain and motive an able and competent roster of directors. Performance-based remuneration should be designed to complement or reward good performance while at the same time keeping in mind the interests of shareholders. Appropriate standards and

measures must be laid down for purposes of assessing executive directors' performances while non-executive directors may be remunerated on the basis of the contribution considering the time and efforts spent in the services of the Company. Incentives may also be given to include stock options, whenever the resources of the Company permit.

## **7.6 Finance Committee**

A Finance Committee shall be constituted from at least three (3) members of the Board of Directors, one of whom shall be an Independent Director. The Finance Committee is responsible for reviewing and making recommendations on the annual budget submitted by the President, studying and recommending capital / fund raising plans for the company, prospecting, qualifying and recommending investment proposals from investors and developing and recommending long range financial objectives for the Company.

In accomplishing its assigned responsibilities, the Finance Committee will undertake the following listed duties and such other matters within its responsibilities as may warrant its attention:

- a. Assist the President and Chief Executive Officer with respect to preparation and presentation of the annual budget to the Board
- b. Review the annual budget and make specific recommendations to the Board on its adoption, including where desirable, comments on expense levels, revenue structures, fees and charges, adequacy of proposed funding levels of programs, and adequacy of provision for reserves.
- c. Undertake a review of the long range financial objectives of the corporation and their ability to sustain the corporation and the accomplishment of its stated mission and programs. (As amended by majority vote of the Board of Directors on 6 November 2009 and by a 2/3 majority vote of the stockholders on 17 December 2009)

## **8. THE MANAGEMENT**

### **8.1 The President**

The President shall be the head of the Company and is the strategic and operational leader directly accountable to the Board for all corporate activities. The responsibilities of the President are spread throughout almost all aspects of the business of the Company from planning, organizing, development and implementation.

The Board is responsible for identifying and electing a President as well as for approving and implementing a process of evaluation of his or her performance both on an on-going an annual basis. The Board shall establish annual performance expectations and goals for the President which should be benchmark for success of projects undertaken and implemented by the President for each annual review.

### **8.1.1 Core Competencies**

Among others, the President must have the following core competencies:

- a. Strategic and visionary leadership capabilities. He should be able to manage people and motivate them in performing their respective duties with integrity and proficiency. He should also be flexible and integrative with the ability to evaluate complex situations and issues concerning the goings on of the business of the Company. Most importantly, he should be able to represent Management to the Company's stakeholders / shareholders and effectively communicate to them the Company's mission and vision and how the organization is working towards achieving these goals;
- b. Creditable professional drive. He should have an excessive appetite for success with the professional drive and commitment to the growth and success of the business, himself and people working with him and for him;
- c. Role model qualities. The President must be a leader and role model of management and employees. He should be able to promote a culture of optimal talent, above-par aptitude, strong leadership, performance, at all levels of the business;
- d. Superior personal and professional inter-relationships abilities. The President should be able to build sustainable relationships with people both internal and external to the Company. He should also be able to represent the Company to the business community to advance its goals and sustainability and build a network of prospective partners / allies to make the Company more globally competitive;

### **8.1.2 Succession Planning and Evaluation**

The Nomination Committee shall periodically review the Company's succession plans for the CEO and, as needed, make recommendations to the Board regarding the selection of individuals to fill this position. There shall be an annual report to the Board by Nominating Committee on the Company's plans regarding CEO and other senior management succession planning.

An evaluation of the CEO's performance shall be made annually by the non-executive Directors based on objective and subjective criteria such as performance of the business, accomplishment of long-term strategic objectives, management development and organizational development.

## **8.2 The Secretary**

The Secretary, who must be a Filipino citizen and a resident of the Philippines, shall have the following duties and responsibilities:

- a. Be loyal to the mission, vision and objectives of the corporation;



- b. Work fairly and objectively with the Board, Management, stockholders and other stakeholders;
- c. Have appropriate administrative and interpersonal skills;
- d. Have a working knowledge of the operations of the corporation;
- e. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- f. keep the minutes of the meetings of the stockholders, the Board of Directors, the Executive Committee and all the standing committees and shall compile them in book form as part of the corporate records of the Corporation;
- g. issue all notices for all meetings required by law and by these by-laws;
- h. have in his custody the corporate records and the seal of the Corporation and see to it that his seal is affixed on all contracts, deeds, agreements and other documents the execution of which on behalf of the Corporation is duly authorized;
- i. keep the record of the address of each stockholders;
- j. sign with the President or with a Vice-President stock certificates for the shares of the Corporation, the issuance of which shall have been authorized by the Board of Directors;
- k. have general charge of the stock transfer books of the Corporation; and
- l. perform all duties incident to the office of Secretary and such other duties from time to time may be assigned to him by the President or by the Board of Directors.

### **8.3 The Treasurer**

The Treasurer shall have the following responsibilities:

- a. keep regular books of account of the Corporation;
- b. have charge and custody of and be responsible for all the funds and securities of the Corporation;
- c. receive and give from any source whatsoever and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected by the Board of Directors;
- d. render to the Board of Directors from time to time an account of all his transactions as Treasurer and of the financial conditions of the Corporation;

- e. perform all the duties incidental to the office of the Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

## **8.4 The Compliance Officer**

The Compliance Officer is a member of the company's management team in charge of the compliance function.

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, this 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 this 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.

## **9. Accountability and Audit**

The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible 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.

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

- a. The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- b. 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;
- c. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's 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;
- d. The corporation should consistently comply with the financial reporting requirements of the SEC;
- e. 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, 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 exposures, 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.

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. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

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.

## **10. Disclosure and Transparency**

The essence of corporate governance is transparency. The more transparent the internal workings of the corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the corporation or misappropriate its assets. It is therefore essential that all material information about the corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

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

## **11. RELATED PARTY TRANSACTIONS**

### **11.1 Policies**

Possible and actual conflicts of interest between the Company and the Board and Management must be identified in all transactions and contracts entered into by the Company. In case such exists and it is determined that the contract or transaction is vital or beneficial the Company, the approval process must be in consonance with certain standards on Related Party Transactions.

“Related Party Transaction” means any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships involving an aggregate amount of Five Million Pesos (P 5,000,000.00) in which the Company or any of its subsidiary was, is or is proposed to be a participant and in which a Related Party has, had or may have a direct or indirect material interest.

The Company recognizes that Related Party Transactions can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company’s and its stockholders’ best interests. Policies mandating the review and approval of Related Party Transactions should be adopted in order to set forth the procedures under which certain transactions must be reviewed and approved or ratified.

### **11.2 Related Party**

“Related Party” means any (i) director, nominee for director or executive officer of the Company; (ii) beneficial owner (other than a financial or investment institution) of more than 5% of the Company’s voting securities; (iii) Immediate Family Member of a director, executive officer, nominee for director or beneficial owner of more than 5% of the Company’s voting securities; (iv) an

entity which is owned or controlled by someone who falls within the categories listed above in (i), (ii) or (iii); or (v) an entity in which someone listed above in (i), (ii) or (iii) has a substantial ownership interest or control.

An immediate family member is any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of any director, nominee for director or executive officer of the Company.

### **11.3 Identification of Potential Related-Party Transactions**

All Related-Party Transactions must be brought to the Management's attention. On an annual basis, each of the directors and executive officers are required to complete a questionnaire designed to elicit information about any potential Related-Party Transactions.

Any potential Related-Party Transaction that is raised will be analyzed by the Company's Legal Department, in consultation with management and, whenever warranted, the Company's external auditor. The team will determine whether the transaction or relationship does, in fact, constitute a Related-Party Transaction requiring compliance with this Policy.

### **11.4 Review and Approval of Related Party Transactions**

At each of its meetings, the Audit Committee will be provided with the details of each existing or proposed Related-Party Transaction that it has not previously approved or disapproved with the following information:

- a. the terms of the transaction;
- b. the business purpose of the transaction;
- c. benefits to the Company and to the relevant director, executive officer or employee.

In the event the Legal Department determines that it is impractical or undesirable to wait until the next Committee meeting to review a Related-Party Transaction, the Chairman of the Audit Committee may act on its behalf to review and approve the Related-Party Transaction. In determining whether to approve a Related-Party Transaction, considerations should be placed on whether the terms of the Related-Party Transaction are fair to the Company or on terms at least equally favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or employee of the Company. In addition, the following parameters must be applied in the approval of Related Party Transactions:

- a. There should be good demonstrable business reasons for the Company to enter into the Related Party Transaction;
- b. The Related-Party Transaction should not impair the independence of a director; and
- c. The Related-Party Transaction should not present an improper conflict of interests for any director, executive officer or employee of the Company, taking into account the size of the transaction, the

overall financial position of the director, executive officer or employee, the direct or indirect nature of the interest of the director, executive officer or employee in the transaction, the ongoing nature of any proposed relationship, and any other relevant factors.

## **12. RISK MANAGEMENT**

The Board recognize the importance of identifying and controlling various risks to prevent undue or uncalculated negative impact on the Company. The Board also recognizes that risk oversight, implementation of comprehensive controls and assurance processes are a core function of the Board.

This policy outlines the Board's desire to better manage risks of the Company, with the formation of a control framework to assist in identifying, assessing, monitoring and managing risks, so as to safeguard the assets and interests of the Company while ensuring the integrity of reporting.

### **12.1 Benefits**

Listed below are some of the benefits of establishing, implementing and maintaining risk management procedures:

- a. More effective strategic and business planning;
- b. More effective utilization of resources;
- c. Better cost control;
- d. Enhances shareholder value by minimizing losses and maximizing opportunities;
- e. Increases knowledge and understanding of exposure to risks;
- f. Increases preparedness for third-party/ outside review, more effective and less costly audits;
- g. Minimizes business disruptions; and
- h. Strengthens culture for continued improvement.

### **12.2 The Risk Management Committee**

A Risk Management Committee is an integral part of the Company's Structure. The Committee ensures that the Board, directors, and the management are aware of all actual and potential risks, both internal and external, facing the business and that a system to identify, monitor and assess risk is implemented and effective. The Risk Management Committee shall be composed of three (3) directors, the Chairman of which shall be an Independent Director.

The Risk Management Committee shall be guided by the following:

- a. Quarterly review of the Company's business must be done for risk identification, mitigation and monitoring;
- b. There should be consistency and best practices rules in the managing, monitoring and reporting of risks;
- c. Some risks may be beneficial to the Company if properly managed and controlled;
- d. Risk-taking should be an informed process within a pre-determined range;

### **12.3 Duties of the Risk Management Officer:**

As may be determined to be necessary by and directly reporting to the Risk Management Committee, there shall be a Risk Management Officer whose primary duty shall be as follows:

- a. Develop and advise the Board and the Management on the level of risk that is acceptable to the Company, including the acceptance of risk at levels that have been designed to accomplish strategic plans;
- b. Develop risk mitigation activities that when implemented will reduce or otherwise manage risk at levels that have been determined to be reasonable. Examples of which include, risk minimization procedures, cost effective insurance or other risk shifting activities;
- c. Identify and prioritize risks existing and that are material to the Company;
- d. Undertake the monitoring of business activities to periodically reassess risks and the effectiveness of controls to manage such risks and;
- e. Supply the Risk Management Committee with quarterly reports on the risk management process.

In the event that a separate Risk Management Officer has not been appointed/ designated, the CEO shall fulfil said role in accordance with this policy.

### **12.4 Risk Profile**

The risk profile of the Company contains both financial and non-financial factors, internal and external factors, including material risks arising from operational activities, operational efficiency and investments in new projects.

The Board recognizes that the Company's main business risks are determined by the nature of its business activities and are aware that there are other factors that could influence the risk profile of the Company.

## **12.5 Risk Management Program**

The Risk Management Committee shall operationalize a Risk Management Program which shall be guided by the following:

- a. Establish risk profile and determine external and internal factors which can influence the Company's risk profile;
- b. Identify and characterize specific threats/ risks;
- c. Assess the vulnerability of critical assets to specific threats/ risks;
- d. Determine the risks (i.e. expected likelihood and consequences of specific threats/ risks on specific assets);
- e. Identify ways on how to minimize said threats/ risks;
- f. Prioritize risk reduction measures based on strategy;
- g. Implement and monitor
- h. Assess effectiveness, conduct reviews and evaluation and make necessary adjustments

## **12.6 Guidelines for minimizing operational risks**

The Company strives to manage risks as best as it can possibly can and has introduced the following guidelines to minimize operational risks, by ensuring that;

- a. all employees be made aware of their duties, roles & responsibilities and they must be held accountable for their specific duties, roles & responsibilities;
- b. the Company shall assign authority based on skill and experience;
- c. all agreements are recorded and documents safeguarded to substantiate dealings with external parties;
- d. the Company has in place insurance policies to minimize risk of loss through accidents or other adverse incidents;
- e. the Board receives on a regular basis, reports of its operational activities;
- f. have health and safety practices in place for its employees.

## **12.7 Guidelines for minimizing external risks**

The Board is aware that external risks are beyond the control of the Company and it the Company is exposed to potential financial loss because of these. To minimize these external risks, the following guidelines have been initiated:



- a. Receiving regular reports on the market relating to prices, interest rates, foreign exchange and economic news;
- b. Constant monitoring of the supply and demand situation of the company's main product;
- c. Access to expert advice or research/ studies on the direction of the prices of the Company's product(s).

## **12.8 Annual Review**

The Risk Management Program shall be reviewed annually and all material changes to the Company's risk profile shall be noted. To assist the Risk Management Committee in conducting the annual review, management and key executives are required to report to the Committee on:

- a. any material risks identified;
- b. how the risks are being managed;
- c. the implementation of any risk management or internal control system; and
- d. whether any breaches of the risk management policies have occurred during the period.

## **13. INTERNAL CONTROLS**

The control environment of the corporation consists of (a) the Board which ensures that the corporation 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.

Internal control aims to ensure that the Company's business activities are efficient and proficient, financial reporting is reliable and that applicable laws, regulations and company's internal policies are followed.

The Company shall implement an effective internal control system, based on following guidelines:

- a. Structuring rules and principles shall be applicable to the Company and its Subsidiaries to standardize methodologies and processes;

- b. Internal control standards shall be defined and explained with clarity in simple language as to be understood both by Management and personnel.
- c. There should be a list of mandatory key controls designed to cover the main risks pertaining to processes impacting financial information, protection of assets, detection and prevention of fraud.

The internal control system shall include control objectives and common control points for financial reporting as well as roles and responsibilities in executing and monitoring internal control in the Company.

### **13.1 Implementation**

Implementation of the Internal Controls shall be a joint effort by and among the Board, various standing committees, particularly the Audit Committee, Chief Operating Officer and Chief Finance Officer.

The Company's internal controls and systems must be implemented to provide reasonable, and not absolute, assurance on the integrity and reliability of the financial statements. Measures must also be in place to safeguard, verify and maintain accountability of its assets and to detect fraud, potential liability, loss and material misstatement.

The board shall review the effectiveness of controls on an annual basis through a process of management self-assessment. Consideration must be given to information and report from the Audit Committee and external auditor.

### **13.2 Internal Control Manual**

The Company shall prepare and implement an Internal Control Manual which shall be duly approved by the Board and the standing Committees.

## **14. INTERNAL AUDIT**

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice.

The Internal Auditor will be responsible for the execution of company activities advising management and the Board regarding ways and means to better execute their functions and responsibilities. The Internal Auditor to be appointed maybe on employment or consultancy basis, depending on the needs and requirements of the Company and its on-going businesses.

Internal Auditing requires various functions related to the evaluation of the effectiveness the Company's risk management, internal controls and governance. Internal Audit helps ensure:

- a. Risks are appropriately identified and managed;
- b. Significant financial, managerial, and operating information is accurate, reliable, and timely;
- c. Resources are used efficiently and adequately safeguarded.
- d. Operations are transacted in accordance with sufficient internal controls, good business judgment, and high ethical standards;
- e. Quality and continuous improvement are fostered in the Company's internal control processes.

#### **14.1 The Director for Internal Audit**

The Board will appoint a Director for Internal Audit and Tax Compliance charged with the following duties:

- a. Develop, document, implement, test, and maintain a comprehensive internal audit plan and system of internal controls to help provide assurance that applicable laws, regulations, and policies and procedures are complied with judiciously;
- b. Examine financial transactions for accuracy and compliance with institutional policies and applicable laws and regulations;
- c. Evaluate financial and operational procedures to assure adequate internal controls are present;
- d. Identify, assess, and evaluate risk areas; make appropriate recommendations for improved internal controls and accounting procedures; and research and adopt industry best practices where appropriate;
- e. Direct research and strategic planning efforts related to tax issues;
- f. Advise senior management on policy and procedure developments with respect to tax issues;

#### **14.2 Annual Internal Audit Plan**

Based on a risk assessment of the Company, the Director for Internal Audit, Internal Auditor, management and the Board shall determine where to focus internal auditing efforts on an annual basis. An audit plan will be proposed by the Audit Committee for approval by the Board. The plan shall cover, among others, the following:

- a. Establish and communicate the scope and objectives for the audit to appropriate management;
- b. Develop an understanding of the business area under review. This includes objectives, measurements, and key transaction types. This involves review of documents and interviews. Flowcharts and narratives may be created if necessary.
- c. Describe the key risks facing the business activities within the scope of the audit.
- d. Identify management practices in the five components of control used to ensure each key risk is properly controlled and monitored.
- e. Develop and execute a risk-based sampling and testing approach to determine whether the most important management controls are operating as intended.
- f. Report issues and challenges identified and negotiate action plans with management to address the problems.
- g. Follow-up on reported findings at appropriate intervals. Internal audit departments maintain a follow-up database for this purpose.

### **14.3 Internal audit reports**

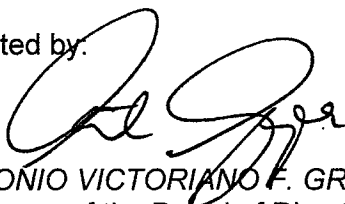
The Internal Auditor will prepare their reports at the end of each audit that summarize their findings, recommendations, and any responses or action plans from management. Recommendations in an internal audit report should help the Company achieve effective and efficient governance, risk and control processes associated with operations objectives, financial and management reporting objectives; and legal/regulatory compliance objectives.

Audit findings and recommendations may also relate to particular assertions about transactions, such as whether the transactions audited were valid or authorized, completely processed, accurately valued, processed in the correct time period, and properly disclosed in financial or operational reporting, among other elements.

## **15. APPROVAL**

This Amended Manual of Corporate Governance shall take effect immediately. As approved by a majority vote of the Board of Directors on 29 May 2017.

Attested by:



**ANTONIO VICTORIANO F. GREGORIO III**  
Chairman of the Board of Directors



**VENUS L. GREGORIO**  
Compliance Officer