

CORPORATE GOVERNANCE MANUAL

of

MERALCO INDUSTRIAL ENGINEERING CORPORATION (MIESCOR)

Revision 0



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Meralco Industrial Engineering Services Corporation

DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES

The Board of directors, officers, executives, and employees of **Meralco Industrial Engineering Services Corporation and its subsidiaries** (herein collectively referred to as The Company) hereby commit themselves to the fundamental principles of sound corporate governance provided in this manual and acknowledge that the same are necessary components of sound strategic business management that will enhance the value of the Company to all its stakeholders.

The Company adheres to the principles of integrity, accountability, fairness, and transparency to develop and uphold an ethical culture that will protect and promote the best interest of the Company for the common benefit of the Company's stockholders and other stakeholders. The Company likewise adheres to the laws enfranchising its corporate existence and contracting operations.

As the Company progresses, this manual shall be kept under constant review and revision to meet the emerging standards of good corporate governance practices.

CORPORATE GOVERNANCE RULES & PRINCIPLES

1.0 Objective

This Manual institutionalizes the principles of good corporate governance in the entire Miescor Group.

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 at all times.

2.0 Definition of Terms

Board of Directors – refers to the collegial body that exercises the corporate powers of the Company formed under the Corporation Code. It conducts all business and controls or holds all property of the Company.

Corporate Governance – refers to a system whereby the shareholders, creditors and other stakeholders of the Company ensure that Management enhances the value of the Company as it competes in an increasingly global market place.

Independent Director- means a person who, apart from his fees and shareholdings, is independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of any independent judgment in carrying out his responsibilities as a director in the Company and includes, among others, any person who:

- a) Is not a director or officer of the Company or its related companies or any of its substantial shareholders except when the same shall be an independent director of any of the foregoing;
- b) Does not own more than two percent (2%) of the shares of the company and/or its related companies or any of its substantial shareholders;
- c) Is not related to any director, officer or substantial shareholder of the Company, 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 or substantial shareholder of the Company, 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 Company, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
- f) Has not engaged and does not engage in any transaction with the Company 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 is a partner and/or a Company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial;
- g) Is not the chairman emeritus or an ex-officio director/officer or a member of the advisory board of the Company, or otherwise appointed in a capacity to assist the Board of the Company in the performance of its duties and responsibilities within the last one (1) year;
- h) Is not a director (other than an independent director) of the Company who resigned or whose term ended within the last two (2) years; and
- i) Is not a securities broker-dealer or a person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer.

Management – refers to the body given the authority to implement the policies determined by the Board in directing the course/business activities of the Company.

Non-audit work – refers to other services offered by the external auditor to the Company that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.

Internal Control – refers to the process effected by the Company's Board of Directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.

Internal auditing – refers to an independent, objective assurance and consulting activity designed to add value and improve the Company's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

Internal Audit – refers to the division or group of auditors that provides independent, objective assurance and consulting services designed to add value and improve the Company's operations.

Independence – refers to that environment which allows the person to carry out his or her work freely and objectively.

Objectivity – refers to unbiased mental attitude that requires the person to carry out his or her work in such a manner that he or she has an honest belief in his or her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his or her judgment to that of others.

3.0 Rules of Interpretation

3.1 Grammatical errors shall not vitiate a statement or provision of this Manual. A transposition of words or clauses may be resorted to when a sentence is without meaning as it stands. Words and phrases which may be necessary to the proper interpretation of a statement or provision and which do not conflict with its obvious purpose and intent not in any way affect its scope and operation may be added in the construction thereof.

3.2 Unless the context requires otherwise:

- The singular includes the plural and conversely;
- A gender includes any other gender
- A reference to the words 'includes' or 'including' is to be construed without limitation to the preceding words, unless it is expressly stated otherwise

4.0 Board Governance

4.1 Composition of the Board

The Board consists of nine (9) directors who shall be elected by the stockholders at a regular or special meeting in accordance with the Amended By-Laws of the Company.

The Board shall have at least one (1) independent director.

The Parent Company ensures control of the Subsidiary Company by maintaining at all times, that majority of the members of the Subsidiary Board are its own nominees. The rest of the members shall be executive or independent director.

4.2 Multiple Board Seats

The Board shall decide on the number of directorships for its members. The optimum number is related to the capacity of a director to perform his duties diligently in general. The President and other executive directors may submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit may apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

4.3 Duties and Responsibilities of the Board

4.3.1 General Responsibilities

- a) The Board of Directors is primarily responsible for the governance of the company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.
- b) The Board should establish the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the mechanisms for effective monitoring of the Management's performance.
- c) A director's office is one of trust and confidence. A Director shall act in a manner characterized by transparency, accountability, integrity and fairness.
- d) The Independent Director should, as much as possible, be in attendance during board meetings to promote transparency. Unless otherwise provided in the By-Laws, his absence shall not affect the quorum requirement.

4.3.2 Specific Duties and Functions

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in other corporations to ensure diligent and efficient performance of their responsibilities to the Company.

To ensure a high standard of best practice for the Company and its stakeholders, the Board shall:

- a) Adopt a process of selection to ensure a mix of competent directors and officers and oversee the implementation of compensation plans and professional development programs for officers and succession planning for senior management;
- b) Oversee Management's formulation and implementation of sound strategic policies and guidelines on major capital expenditures, business strategies, plans and policies and periodically evaluate Management's overall performance;
- c) Ensure that the company complies with all relevant laws, regulations and endeavor to adopt best business practices;
- d) Identify the Company's major and other stakeholders and oversee Management's formulation and implementation of the Company's policy on communicating and relating with them through an effective investor relations program and other appropriate communications programs;
- e) Adopt a system of check and balance within the Board, which should be regularly reviewed for effectiveness;
- f) Provide oversight with regard to enterprise risk management;
- g) Identify key risk areas and key performance indicators and monitor these factors with due diligence;
- h) Ensure that the Company establishes appropriate policies and procedures in accordance with this Manual and applicable laws and regulations including, but not limited to, conflict of interest and related party transactions;
- i) Constitute Board Committees that it deems necessary to assist the Board in the performance of its duties and responsibilities;
- j) Consider the creation and maintenance of alternative dispute resolution system in the Company that can amicably settle differences or conflicts between the Company and its stockholders, if applicable;

- k) 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;
- l) Keep Board authority within the powers of the institution as prescribed in the Articles of Incorporation, By-Laws and in existing laws, rules and regulations.

4.3.3 Chairman of the Board

In addition to the duties provided in the By-Laws of the Company, the responsibilities of the Chairman in relation to the Board shall include the following:

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

4.3.4 Internal Controls Responsibilities of the Company

- a) The control environment of the Company consists of:
 - i. The Board which ensures that the company is properly managed and effectively supervised;
 - ii. The Management that actively manages and operates the Company in a sound and prudent manner;
 - iii. The organizational and procedural controls supported by effective management information and risk management reporting systems; and

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

4.4 Qualifications of Directors

Every director shall own at least one (1) share of the capital stock of the Company of which he is a director, which share shall stand in his name in the books of the Company. He must have all the qualifications and none of the disqualifications of a director. The following are the qualifications:

- a) Possesses college education or the skills needed to effectively carry out his functions as director;
- b) Possesses integrity/probity; and
- c) Has strong adherence to legal and moral principles.

As much as possible, a director must have a practical understanding of business in general and of the business of the Company, in particular.

The Nomination and Governance Committee may consider and recommend to the Board such other qualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

4.5 Disqualification of a Director

4.5.1 Permanent Disqualification

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

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

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

4.5.2 Temporary Disqualification

- a) The Nomination and Governance committee may consider and recommend to the Board temporary disqualification of a director based on any of the following grounds:
 - Refusal to fully disclose the extent of his business interest as required by existing laws or Company rules and regulations. The disqualification shall be in effect as long as the refusal persists.
 - Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve month period during the said incumbency, unless the absence is due to illness, death

in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election.

- Dismissal or termination for a cause as director or any corporation covered by the Governance Code. This disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
 - If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.
- b) Any temporary disqualification of a director recommended by the Nomination and Governance Committee to be valid and effective must be approved by the Board, as well as, comply with the requirements of applicable laws, rules and regulations.
- c) A temporary disqualified director shall, within such period prescribed by the Board, but in no case less than 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.
- d) If an independent director becomes an officer or employee of the Company, his designation as independent director is automatically terminated and he shall be disqualified as an independent director.
- e) The Nomination and Governance Committee may consider and recommend to the Board other grounds for disqualifications which are now or may hereafter be provided under existing laws and regulations or any amendments thereto.

5.0 Duties and Responsibilities of a Director

A director shall have the following duties and responsibilities:

- 5.1 To conduct fair business transactions with the Company and ensure that his personal interest does not conflict with the interest of the Company;
- 5.2 To devote time and attention necessary to properly discharge and effectively perform his duties and responsibilities;

- 5.3 To act judiciously;
- 5.4 To exercise independent judgment;
- 5.5 To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of its Articles of Incorporation and By-Laws, the requirements of the SEC, and where applicable, the requirements of other regulatory agencies;
- 5.6 To observe confidentiality of information; and
- 5.7 To ensure the continuing soundness, effectiveness and adequacy of the Company's control environment.

6.0 Compensation of Directors

For their attendance at each regular or special meeting, directors shall receive a reasonable per diem to be fixed by the board. Directors, as such, may receive compensation in such amounts and in such form as the stockholders may deem proper under the circumstances. Nothing herein contained shall be construed to preclude any director from serving the Company in any other capacity and receiving compensation therefore.

7.0 Board Committees

The Board of Directors shall form Board Committees to aid in ensuring compliance with the principles of good corporate governance. The members of such Committees shall be appointed by the Board of Directors annually.

7.1 Executive Committee

- a) The Board of Directors may, by a majority vote, designate five (5) of its members, including one (1) independent director, to constitute an Executive Committee.
- b) The Committee may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it in the By-Laws or on a majority vote of the Board, subject to the limitations provided by Section 35 of the Corporation Code.
- c) The Corporate Secretary shall keep the minutes of its proceedings; and all such proceedings shall be from time to time reported to the Board of Directors, and shall be subject to revision or alteration by the Board; provided that no rights of third persons shall be affected by such revision or alteration.

7.2 Nomination and Governance Committee

The Nomination and Governance Committee shall preferably have at least three (3) directors, one of whom must be an independent director. It shall have the following duties and responsibilities:

- a) Review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval in accordance with the qualifications prescribed by law, pertinent rules and regulations, the Company's By-Laws and this Manual. The screening shall include the evaluation of the nominee's directorship, membership and officership in other corporations or organizations to ensure that he can perform his duties diligently and effectively;
- b) Provide a Final List of all qualified nominees to the Board;
- c) Review and endorse to the Board the Compliance Officer's recommendations in relation to violations of this Manual, the Code of Corporate Governance and such other circulars, rules and regulations issued in relation thereto;
- d) Recommend Committee membership appointments, including Committee chairmanships, to the Board for approval after receiving advice from the Chairman of the Board and with consideration of the desires of individual Board members;
- e) Review annually the Charters of the Board Committees for the purpose of recommending any needed change(s) to the Board;
- f) Recommend processes and mechanisms for evaluating the performance of the Board, the Board Committees, and Management;
- g) Assess the effectiveness of the Board's processes and the procedures in the election or replacement of directors;
- h) Review annually the prescribed Full Business Interest Disclosure of all incoming Directors and officers; and
- i) Such other responsibilities as may be provided in the Nomination and Governance Committee Charter.

7.3 Audit & Risk Management Committee

The members of the Audit and Risk Management Committee shall come from the Board of Directors, and shall be composed of three (3) directors, who shall preferably have accounting and finance backgrounds, one of whom shall be Independent Director. Each member shall have adequate understanding at least or competence at most of the Company's financial management systems and environment.

The Audit and Risk Management Committee shall have the following duties and responsibilities:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring compliance with applicable laws, rules and regulations;
- b) Provide oversight over Management's activities in managing credits, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risks exposures and risks management activities;
- c) Perform oversight functions over the Company's internal and external auditors. It should ensure that 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;
- d) Review and approve the annual internal audit plan to support the attainment of the objectives of the Company. The plan shall include the audit scope, resources, and budget necessary to implement it;
- e) Prior to 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 (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Organize an internal audit group and consider the appointment of an independent internal auditor as well as an independent external auditor, and the terms and conditions of their engagement and removal;
- g) Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;

- h) Review the reports submitted by the internal and external auditors;
- i) Review the completeness, accuracy, and fairness of the quarterly, half-year, and annual financial statements before their submission to the Board with particular focus on the following matters:
 - Any change/s in accounting principles and practices
 - Major judgmental areas
 - Significant adjustments resulting from audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements
- j) Coordinate, monitor and facilitate compliance with laws, rules, and regulations;
- k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Audit and Risk Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report;
- l) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. The Audit and Risk Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties;
- m) Elevate to international standards the accounting and auditing processes, practices and methodologies; and such other duties and responsibilities as may be provided in the Audit and Risk Management Committee Charter.
- n) The Audit and Risk Management Committee shall meet quarterly and as often as may be necessary.

7.4 Compensation and Benefits Committee

The Compensation and Benefits Committee preferably shall be composed of at least three (3) directors, one of whom shall be an independent director. This Committee shall have the following duties and responsibilities:

- a) Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy, and the business environment in which it operates;
- b) Oversee the formulation of the compensation and retirement philosophy as well as study and evaluate the appropriate compensation, retention and retirement policies and programs for the officers of the Company as appointed in accordance with the Company's By-Laws, as well as managers or executives with the rank of assistant vice president and up;
- c) Review management succession plan and such other duties and responsibilities as may be necessary.

7.5 Finance Committee

The Finance Committee shall be composed of at least three (3) directors with the Chief Finance Officer as ex-officio member, one (1) of whom shall be an Independent Director. It is in charge of reviewing the financial operations of the Company and matters regarding the acquisitions of or investments in companies, business or projects. It endorses recommendations to the Board as deemed appropriate or approved actions within its delegated authority.

The Finance Committee shall review, advise and recommend approval, decision or action on financial matters, including but not limited to the following;

- a) Establishment of and changes to financial, accounting and treasury policies;
- b) All major financing transactions of the Company;
- c) Issuance of shares and sales repurchases, valuation of shares, and other such activities involving existing shares;
- d) The Company's corporate plans and budgets;
- e) Major contracts and variations;
- f) Proposals for dividends and transfers to reserve;
- g) Financing guarantees and indemnities and mortgaging of the Company's assets;

- h) Any actual, or potential, major exception or occurrence which has, or may have, a major financial impact on the Company;
- i) Guarantees, financial support, undertakings and indemnities concerning investments or liabilities of subsidiary or associated companies, other than those which are the subject of an existing general or specific Board or Committee approval;
- j) Capitalization of subsidiaries or associated companies, other than that which is subject of an existing general or specific Board or Committee approval;
- k) Proposed principal agreements with Government, Joint Venture and Shareholders' Agreements, Major Acquisitions, Divestment and Property Redevelopment; and
- l) Such other duties and responsibilities as may be provided in the Finance Committee Charter.

8.0 The Management

The Management is represented by a Management Committee (Mancom) composed of corporate officers and executives formed and headed by the President. All principal policies and directions governing the organization, management and operation of the Company as well as its subsidiaries shall be formulated and implemented by this Committee, subject to Board approval when required by existing laws.

9.0 Duties and responsibilities of the President

- a) The President shall be in charge of the management and administration of the business operations, affairs and properties of the Company. He shall ensure that all resolutions of the Board are carried into effect and see that the business and affairs of the Company are managed in a sound and prudent manner. He shall ensure the reliability and integrity of financial and operational information and effectiveness, as well as, the efficiency of operations.
- b) The President shall report to the Board, from time to time, all matters within his knowledge in which the Company has material interest.

10.0 The Corporate Secretary

10.1 The Corporate Secretary is an officer of the Company and is expected to observe the highest degree of professionalism, integrity, and diligence.

10.2 Qualifications of the Corporate Secretary

- a) The Corporate Secretary shall be resident Filipino citizen and of good moral character.
- b) He shall have adequate legal, administrative, and interpersonal skills.

10.3 Duties and responsibilities of the Corporate Secretary

- a) Work and deal fairly and objectively with all the constituencies of the Company, namely, the Board, Management, Stockholders and other stakeholders.
- b) Be fully informed and be part of scheduling the Board activities.
- c) Be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities.
- d) Schedule meetings at least for the current year and duly notify the Board before every meeting.
- e) Advise directors on matters pertaining to their legal responsibilities and obligations and ensure that appropriate Board procedures are being followed and that applicable rules and regulations are complied with.
- f) Conduct orientation for new directors on the Company's organizational structures and business operation.
- g) Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations.
- h) Attend all Board meetings and maintain record of the same.
- i) Safekeep and preserve the integrity of minutes and other official records of the Company. Report to the SEC and similar regulatory agencies, matters involving the Company, which are required to be disclosed under applicable laws and regulations.
- j) Be loyal to the mission, vision, and objectives of the Company.

- k) Have working knowledge of the operations of the Company.
- l) Ensure that all Board procedures, rules and regulations are faithfully followed by its members.

11.0 Compliance Officer

The Board shall appoint a Compliance Officer who shall report to the Chairman. The Compliance Officer shall perform the following duties:

- a) Monitor compliance with the provisions and requirements of this Manual;
- b) Determine violation/s of this Manual and recommend action for violation thereof to be reviewed and approved by the Board;
- c) Issue a certification every January 30th of the year on the extent of the Company's compliance with this Manual for the completed year, explaining the reason for any deviation from the same, if any; and
- d) Identify, monitor and report compliance risks.

12.0 External Auditor

- 12.1 The Board, after consultations with the Audit and Risk Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC who shall undertake an independent audit of the Company, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.
- 12.2 The external auditor of the Company should not at the same time provide the services of an internal auditor.
- 12.3 The Company's external auditor should be rotated or the handling partner should be changed every five (5) years or earlier.
- 12.4 The reason(s) for the resignation, dismissal or cessation from service of an external auditor and the date thereof shall be reported in the Company's annual and current reports. Said report should include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.
- 12.5 If an external auditor believes that the statements made in the Company's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

13.0 Internal Auditor

- 13.1 The Company shall have in place an independent internal audit function which shall be performed by an Internal Auditor or an internal audit organization, through which the Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.
- 13.2 The Internal Auditor should certify that the conduct of internal audit activities is in accordance with the International Standards of Professional Practice of Internal Auditing.
- 13.3 The Internal Auditor shall functionally report directly to the Audit and Risk Management Committee.
- 13.4 The Internal Auditor should submit to the Audit and Risk Management Committee and Management an annual report on the internal audit group's activities, responsibilities, and performance relative to the audit plans and strategies as approved by the Audit and Risk Management Committee.

14.0 Supply of Information

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

- a) Management is responsible for providing the Board with appropriate and timely information. If the information provided by Management is insufficient, the Board will make further inquiries where necessary to which the persons responsible will respond as fully and promptly as possible.
- b) The directors, either individually or as a group, in the performance of their duties may seek independent professional advice within the guidelines set by the Board.
- c) A full agenda and comprehensive Board papers are to be circulated to all directors well in advance of each Board meeting.
- d) Full Board minutes of each Board meeting are kept by the Corporate Secretary and are available for inspection by any director during office hours.

15.0 Disclosure and Transparency

The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information for the interest of the stakeholders. All material information may include: earnings results, acquisition or disposition of assets, board changes, related party transactions, shareholdings of directors, changes in ownership, remuneration (including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.

16.0 Accountability and Audit

16.1 The Board shall ensure that stockholders are provided with a balanced and comprehensible assessment of the Company'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.

16.2 Management should formulate the rules, procedures on internal controls, and financial operations for presentation to the Audit and Risk Management Committee in accordance with the following guidelines:

- a) The extent of its responsibility in the preparation of the financial statements of the Company, 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 Company should be maintained;
- 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 Company's financial reporting, governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations

17.0 Investor's Rights and Protection

The Board shall commit to respect the following rights of the stockholders:

17.1 Voting Right

- a) Stockholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
- b) Cumulative voting shall be used in the election of directors.

17.2 Pre-emptive Right

Unless otherwise stated in the Articles of the Incorporation or the Corporation Code of the Philippines, all stockholders shall enjoy pre-emptive right to subscribe to all issues or disposition of shares in proportion to their respective shareholdings.

17.3 Right of Inspection

Any stockholder who desires to exercise his right to inspect corporate books and records of the Company must make a written request addressed to the Corporate Secretary, and stating the specific reason(s) or purpose(s) for the inspection. The exercise of such right may be denied if: (a) the requesting stockholder improperly used information obtained from prior examination; or (b) is not acting in good faith; or (c) there is a reasonable ground to safeguard the interests of the Company, such as when the subject of inspection contains confidential or proprietary information or covered by a confidentiality or non-disclosure obligation which will be violated by the Company if inspection were allowed. In no case shall the stockholder be allowed to take corporate books and other records out of the principal office of the Company for the purpose of inspecting them. The Corporate Secretary may elevate the request for inspection for information, approval, or other appropriate action by the Board.

This Manual shall be available for inspection by any stockholder of the Company at reasonable hours on business days.

17.4 Right to Information

Stockholders shall be provided, upon request, with periodic report filed by the Company with the SEC (e.g., proxy statement/ information statement and annual report) which disclose personal or professional information about the Directors and Officers such as their educational and business

background, holdings of the Company's shares, material transactions with the Company, relationship with other Directors and Officers and the aggregate compensation of Directors and Officers.

17.5 Right to Dividends

17.5.1 Stockholders shall have the right to receive declared dividends subject to the procedures prescribed by the Board.

17.5.2 The Company shall be compelled to declare dividends when its retained earnings exceed 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 Company 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 Company, such as when there is a need for special reserve for probable contingencies.

17.6 Appraisal Right

The Stockholders shall have appraisal right under any of the following circumstances:

- a) In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any aspect superior to those of outstanding shares of any class, or of extending or reducing the term of corporate existence;
- b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the property and assets of the Company;
- c) In case of merger or consolidation; and
- d) Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized.

17.7 Right to Transparent and Fair Conduct of Stockholders' Meeting

- a) The Board shall adopt appropriate measure to ensure that stockholders' meetings are conducted in a fair and transparent manner. The stockholders should be encouraged to personally attend such meetings, and if unable to do so, they should be advised ahead of time of their right to appoint a proxy on their behalf. Subject to the requirements of law, rules and regulations, the By-Laws of the Company and the rules approved by the Board, the validity of a proxy should be resolved in favor of the stockholder.
- b) It shall be the duty of the directors to promote stockholder rights, remove impediments to the exercise of stockholders' rights and allow possibilities to seek redress for violation of their rights. The directors shall envisage the exercise of stockholders' voting rights and the solution to problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to stockholders participating in meetings and/or voting in person.

18.0 Compliance and Monitoring System

18.1 Communication and Training Process

- a) All Company directors and executives are tasked to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- b) An adequate number of printed copies of this Manual must be reproduced and distributed to each department of the Company.
- c) Funds will be allocated by the Company for the purpose of conducting an orientation program or workshop to operationalize this Manual.
- d) The director shall, before his assumption of duty, be required to attend a seminar on corporate governance.

18.2 Governance Rating System

The Board shall develop a rating system to measure the performance of the Board and Management in accordance with the criteria provided in this Manual and other rules and regulations on good corporate governance.

18.3 Penalties for Non-Compliance with the Manual

- a) The Compliance Officer shall be specifically tasked with the responsibility of ensuring compliance with this Manual.
- b) The Compliance Officer shall, after proper investigation, notice and hearing, determine and recommend to the Board, the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent repetition of the violation.

19.0 Applicability to Subsidiaries

Subsidiaries of the Company are encouraged to also adopt this Corporate Governance Manual.

20.0 Separability Clause

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

21.0 Effectivity

This Manual shall take effect on December 1, 2012.

Signed:


JESUS P. FRANCISCO
President
with as (i)


OSCAR S. REYES
Chairman of the Board