

THE PHILODRILL CORPORATION
CORPORATE GOVERNANCE MANUAL
(Revised as of July 23, 2014)

The Board of Directors and Management of **The Philodrill Corporation** (the “Company”) commit themselves to the principles and best practices contained in this Manual, and acknowledge that the same shall guide the attainment of corporate goals.

1. OBJECTIVE

This Manual institutionalizes the principles of good corporate governance in the Company.

The Board of Directors and Management, the employees and shareholders believe that corporate governance is an indispensable component of sound strategic business management and will undertake every effort necessary to create awareness and promote adherence to its principles within the organization.

2. COMPLIANCE SYSTEM

2.1. Compliance Officer

2.1.1. Appointment

To insure adherence to the principles and best practices of corporate governance contained in this Manual, the Board of Directors (hereafter, the “Board”) shall designate a Compliance Officer who shall hold the position of a Vice President or its equivalent. The Compliance Officer shall have direct reporting responsibilities to the Chairman.

2.1.2. Duties

The Compliance Officer shall perform the following duties:

- Monitor compliance by the Company with the Revised Code of Corporate Governance (the “Code”), the rules and regulations of regulatory agencies, and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- Appear before the Securities and Exchange Commission (SEC) upon summons on matters that need to be clarified by the SEC;
- Determine violation/s of the Manual and recommend penalty for violation thereof, for review and approval of the Board;

- Issue a certification every January 30th of the year on the extent of the Company's compliance with this Manual for the completed year, and explaining the reason/s for the latter's deviation from the same, if any; and,
- Identify, monitor and control compliance risks.

2.1.3. Disclosure

The appointment of the Compliance Officer shall be immediately disclosed to the SEC on SEC Form 17-C. All correspondence relative to the functions of the Compliance Officer shall be addressed to said officer.

2.2. Plan of Compliance

2.2.1. The Board of Directors

Compliance with the principles of good corporate governance shall start with the Board.

It shall be the Board's responsibility to foster the long-term success and secure the sustained competitiveness of the Company in a manner consistent with its fiduciary responsibilities which it shall exercise in the best interests of the Company, the shareholders and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

2.2.1.1 Composition of the Board

The Board shall be composed of nine (9) members who are elected by the stockholders.

The Company shall have at least two (2) independent directors, or such number of independent directors that constitute twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2) independent directors.

The membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision-making process.

2.2.1.2 Multiple Board Seats

The Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.

The Chief Executive Officer (CEO) and other executive directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to independent or non-executive directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised.

2.2.1.3 The Chairman and Chief Executive Officer

The roles of Chairman and CEO may 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 perspective.

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

- (i) Ensure that the meetings of the Board are held in accordance with the By-Laws, or as the Chairman may deem necessary;
- (ii) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the Directors; and
- (iii) Maintain qualitative and timely lines of communication and information between the Board and Management.

2.2.1.4 Qualifications of Directors

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

- (i) Holder of at least one (1) share of stock of the Company;
- (ii) College education or equivalent academic degree;
- (iii) He shall be at least twenty one (21) years old;
- (iv) Practical understanding of the business of the Company;
- (v) Membership in good standing in relevant industry, business or professional organizations;
- (vi) Previous business experience;
- (vii) He shall have proven to possess integrity and probity; and,
- (viii) He shall be assiduous.

2.2.1.5 Disqualification of Directors

Permanent Disqualification

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

- (i) Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or, (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- (ii) 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: (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 a 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, (d) willfully violating the laws that govern securities and banking activities.

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

- (iii) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- (iv) Any person who has been adjudged by final judgment or order of the SEC, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code, or any other law administered by the SEC or BSP, or any of their rules, regulations or orders;
- (v) Any person earlier elected as independent director who becomes an officer, employee or consultant of the Company;
- (vi) Any person judicially declared as insolvent;
- (vii) 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, violation or misconduct enumerated in sub-paragraphs (i) to (iv) above; and,

- (viii) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment as director.

Temporary Disqualification

The Board may provide for the temporary disqualification of a director for any of the following reasons:

- (i) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing rules and regulations. The disqualification shall be in effect as long as the refusal persists.
- (ii) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family, or serious accident. The disqualification shall apply for purposes of the succeeding election.
- (iii) Dismissal or termination for cause as director of any corporation covered by the Code. The disqualification shall be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
- (iv) Being under preventive suspension by the Company;
- (v) If the beneficial equity ownership of an independent director in the Company or its subsidiaries and affiliates exceeds two percent (2%) of subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- (vi) If any of the judgment or orders cited in the grounds for permanent disqualification has not yet become final.

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

2.2.1.6 Responsibilities, Duties and Functions of the Board.

General Responsibility

It is the Board's responsibility to foster the long-term success of the Company and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

The Board shall formulate the Company's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor Management's performance.

Duties and Functions

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, among others, the following duties and functions:

- (i) Implement the process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for Management.
- (ii) Provide sound strategic policies and guidelines to the Company on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
- (iii) Ensure the Company's faithful compliance with all applicable laws, regulations and best business practices.
- (iv) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Company. If feasible, the Company's CEO or chief financial officer (CFO) shall exercise oversight responsibility over this program.
- (v) Identify the Company's stakeholders in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- (vi) Adopt a system of checks and balances within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting process at all times. There should be a continuing review of the Company's internal control system in order to maintain its adequacy and effectiveness.
- (vii) Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Company to anticipate and prepare for possible threats to its operational and financial viability.
- (viii) Formulate and implement policies and procedures that would ensure, the integrity and transparency of related party transactions between and among the Company and its parent corporation, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- (ix) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.

- (x) Establish and maintain an alternative dispute resolution system in the Company that can amicably settle conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities.
- (xi) Meet such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board Meetings should be encouraged and given due consideration.
- (xii) Keep the activities and decisions of the Board within its authority under the Articles of Incorporation and By-Laws, and in accordance with existing laws, rules and regulations.
- (xiii) Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, who is preferably a lawyer, shall act as Compliance Officer.

Specific Duties and Responsibilities of a Director

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

A director should observe the following norms of conduct:

- (i) Conduct fair business transactions with the Company, and ensure that his personal interests do not conflict with the interests of the Company.

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

- (ii) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director should devote sufficient time to familiarize himself with the Company's business. He should be constantly aware of, and be knowledgeable with, the Company'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.

- (iii) Act judiciously.

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

- (iv) Exercise independent judgment.

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

- (v) Have a working knowledge of the statutory and regulatory requirements that affect the Company, including its Articles of Incorporation and By-Laws, the rules, and regulations of the SEC and, where applicable, the requirements of relevant regulatory agencies.
- (vi) Observe confidentiality.

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

2.2.1.7 Internal Control Responsibilities of the Board

The control environment of the Company consists of: (a) the Board, which ensures that the Company is properly and effectively managed and supervised; (b) a Management, that actively manages and operates the Company 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 Company'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.

- (i) The minimum internal control mechanisms for the performance of the Board's oversight responsibility may include:
 - (a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Company's organizational and operational controls;
 - (b) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
 - (c) Evaluation of proposed senior ,management appointments;
 - (d) Selection and appointment of qualified and competent management officers; and,
 - (e) Review of the Company's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- (ii) The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among others, the following factors: nature and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

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

2.2.1.8 Board Meetings and Quorum Requirement

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

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.

To monitor the directors' compliance with the attendance requirements, the Company shall submit to the SEC, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C or in a separate filing.

2.2.1.9 Remuneration of Directors and Officers

The levels of remuneration of the Company should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance.

The Company may establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers depending on the particular needs of the Company. No director shall participate in deciding on his remuneration.

The Company's annual reports and information and proxy statements shall include a clear, concise understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

To protect the funds of the Company, the SEC may, in exceptional cases, e.g., when a corporation is under receivership or rehabilitation, regulate the payment of the compensation, allowances, fees, and fringe benefits of directors and officers.

2.2.2 Board Committees

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

Audit Committee

The Audit Committee shall consist of at least three (3) directors, who shall preferably have accounting and finance backgrounds, one of whom shall be an independent director and another with audit experience. The chairman of the Audit Committee should be an independent director. Each member shall have adequate understanding and knowledge of the Company's financial management systems and environment.

The Audit Committee shall have the following functions:

- (i) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- (ii) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include regular receipt from Management of information on risk exposures and risk management activities.
- (iii) Perform oversight functions over the Company's internal and external auditors to ensure that they 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;
- (iv) Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it.
- (v) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- (vi) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- (vii) Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;
- (viii) Perform direct interface functions with the internal and external auditors;
- (ix) Elevate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
 - (a) a definitive timetable within which the accounting system of the Company will be 100% International Accounting Standard (IAS) compliant; and,
 - (b) an accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.

- (x) Develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Company through a step-by-step procedures and policies handbook that will be used by the entire organization.
- (xi) Review the reports submitted by the internal and external auditors;
- (xii) Review 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 policies and practices
 - Major judgmental areas
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements.
- (xiii) Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- (xiv) 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 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.
- (xv) Establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.

The Audit Committee shall ensure that, in the performance of the work of the internal auditor, he shall be free from interference by outside parties.

Nomination Committee

The Nomination Committee shall be composed of at least (3) voting directors, one of whom shall be an independent director, and one (1) non-voting member in the person of the Human Resources Director/Manager or similar officer. The Committee shall review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee shall be composed of at least three (3) members, one of whom shall be an independent director, to 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.

Duties and Responsibilities

- (a) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Company's culture, strategy and control environment.
- (b) Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.
- (c) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers.
- (d) Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers which, among others, would compel all officers to declare, under penalty of perjury, all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- (e) Disallow any director to decide his or her own remuneration.
- (f) Provide in the Company's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of executive officers for the previous fiscal year and the ensuing year.
- (g) Develop/review the existing Company's Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.

2.2.3. The Corporate Secretary

The Corporate Secretary is an officer of the Company and perfection in performance and no surprises are expected of him.

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, shall have the following qualifications:

- (i) Be loyal to the mission, vision, and objectives of the Company;
- (ii) Work fairly and objectively with the Board, Management, stockholders and other stakeholders;
- (iii) Have appropriate administrative and interpersonal skills;
- (iv) Be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities; and,

- (v) Have a working knowledge of the operations of the Company.

Duties and Responsibilities

- (i) Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Company;
- (ii) Informs the members of the Board, in accordance with the By-Laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- (iii) Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents prevent him from doing so;
- (iv) Ensure that all Board procedures, rules and regulations are strictly followed by the members;
- (v) If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in the Code.
- (vi) Gather and analyze all documents, records and other information essential to the conduct of his duties and responsibilities to the Company;
- (vii) As to meetings, get a complete schedule thereof at least for the current year and put the Board on notice before every meeting;
- (viii) Assist the Board in making business judgment in good faith and in the performance of their responsibilities and obligations; and,
- (ix) Submit to the SEC, at the end of every fiscal year, an annual certification as to the attendance of the directors during Board meetings.

2.2.4. External Auditor

- (i) An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Company. An external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.
- (ii) The reasons for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Company's annual and current reports. Said report shall 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.

- (iii) The external auditor of the Company shall not concurrently provide the services of an internal auditor to the same client. The Company shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.
- (iv) The Company's external auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.
- (v) 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.

2.2.5. Internal Auditor

- (i) The Company shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of internal auditors through which the Board, senior management and stockholders shall be provided with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with.
- (ii) The Internal Auditor shall report to the Audit Committee.
- (iii) The minimum internal control mechanisms for Management's operational responsibility shall center on the CEO, being ultimately accountable for the Company's organizational and procedural controls.
- (iv) The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: (i) the nature and complexity of business and the business culture; (ii) the volume, size and complexity of transactions; (iii) the degree of risk; (iv) the degree of centralization and delegation of authority; (v) the extent and effectiveness of information technology; and, (vi) the extent of regulatory compliance.

3. COMMUNICATION PROCESS

- 3.1. This Manual shall be available for inspection by any stockholder of the Company at reasonable hours on business days.
- 3.2. All directors, executives, division and department heads 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.
- 3.3. An adequate number of printed copies of this Manual must be reproduced under the supervision of Human Resources/Personnel Department, with a minimum of at least one (1) hard copy of the Manual per department.

4. TRAINING PROCESS

- 4.1. An orientation program or workshop shall be conducted to operationalize this Manual.

4.2. Depending on qualifications and experience, a director, before assuming his position as such, is required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institute.

5. ADEQUATE AND TIMELY INFORMATION

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

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

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

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

6. ACCOUNTABILITY AND AUDIT

A) The Board is primarily accountable to the Stockholders. It should provide them 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 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:

- (i) The extent of its responsibilities 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.
- (ii) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders.
- (iii) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company's governance, operations and information system, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations.

- (iv) The Company should consistently comply with the financial reporting requirements of the Commission.
 - (v) The external auditor, or the signing partner of the external auditing firm assigned to the Company, should be rotated or changed every five (5) years or earlier. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposure, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards of 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.
- B) 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 Company, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the Company. 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 Company's annual and current reports. The report shall include a discussion of any disagreement between him and the Company on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the Company failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Company to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

7. REPORTORIAL OR DISCLOSURE SYSTEM OF COMPANY'S CORPORATE GOVERNANCE POLICIES

- 7.1 The reports or disclosures required under this Manual shall be prepared and submitted to the SEC by the responsible Committee or officer through the Company's Compliance Officer.
- 7.2 All material information about the Company 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 disposal of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.
- 7.3 Other information that shall always be disclosed includes remuneration (including stock options) of all directors and senior management, corporate strategy, and off balance sheet transactions.

- 7.4 All disclosed information shall be released via the approved stock exchange procedure for Company announcements as well as through the annual report.
- 7.5 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.

8. SHAREHOLDERS' BENEFITS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors. Therefore, the following provisions are issued for the guidance of all internal and external parties concerned, as governance covenant between the Company and all its investors:

8.1. INVESTORS' RIGHTS AND PROTECTION

8.1.1. Rights of Investors/Minority Interests

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

- (i) Right to vote on all matters that require their consent or approval;
- (ii) Pre-emptive right to all stock issuances of the corporation, unless otherwise denied in the Company's Articles of Incorporation;
- (iii) Right to inspect corporate books and records;
- (iv) Right to information;
- (v) Right to dividends; and,
- (vi) Appraisal right.

(a) Voting Right

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

(b) Pre-emptive Right

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

(c) **Power of Inspection**

All shareholders shall be allowed, upon prior written notice and during regular business hours, to inspect corporate books and records including the minutes of Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.

(d) **Right to Information**

- The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers.
- The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
- The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable for, and to those relating to matters for which the Management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".

(e) **Right to Dividends**

- Shareholders shall have the right to receive dividends subject to the discretion of the Board.
- The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: (i) when justified by definite corporate expansion projects or programs approved by the Board; or, (ii) 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, (iii) 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.

(f) **Appraisal Right**

The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- In case of merger or consolidation.

It is the duty of the Board to promote shareholders' rights, remove impediments to the exercise of shareholders' rights, and provide an adequate avenue for them to seek timely redress for breach of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. 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.

The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints. 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.

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. 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 the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

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.

9. Governance Self-Rating System

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

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

10. MONITORING AND ASSESSMENT

10.1 Each Committee shall report regularly to the Board of Directors.

- 10.2 The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof shall subject the responsible officer or employee to the penalty provided under Part 8 of this Manual.
- 10.3 The establishment of such evaluation system, including the features thereof, shall be disclosed in the Company's annual report (SEC Form 17-A), or in such form of report that is applicable to the Company. The adoption of such performance evaluation system must be covered by a Board approval.
- 10.4 This Manual shall be subject to quarterly review unless the same frequency is amended by the Board.
- 10.5 All business processes and practices being performed within any department or business unit of the Company that are not consistent with any portion of this Manual is deemed revoked unless upgraded to the extent that it becomes compliant with this Manual.

11. PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL

- 11.1 To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Company's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provisions of this Manual:
- In case of first violation, the subject person shall be reprimanded.
 - Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
 - For third violation, the maximum penalty of removal from office shall be imposed.
- 11.2 The commission of a third violation of this Manual by any member of the Board of the Company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- 11.3 The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

For and in behalf of the Board of Directors:

ALFREDO C. RAMOS
Chairman of the Board