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## The Philodrill Corporation OV

### PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

<b>Form/Report Type</b>	Corporate Governance Manual
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#### Description of the Disclosure

In compliance with SEC Memorandum Circular No. 19, Series of 2016, the Philodrill Corporation submitted to the Commission and to the Philippine Stock Exchange a new Manual on Corporate Governance in accordance with the new Code of Corporate Governance for PLCs.

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**THE PHILODRILL CORPORATION**  
**REVISED MANUAL ON CORPORATE GOVERNANCE**  
**(May 2017)**

**THE PHILODRILL BOARD'S GOVERNANCE RESPONSIBILITIES**

1. The Philodrill Corporation is headed by a competent, working Board to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.
2. The fiduciary roles, responsibilities and accountabilities of the Philodrill Board as provided under the law, the Company's articles and by-laws, and other legal pronouncements and guidelines are clearly made known to all Directors as well as to stockholders and other stakeholders.
3. The Board Committees are set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established are contained in a Committee Charter available for public viewing in the Company's website.
4. To show full commitment to the Company, the Directors devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.
5. The Philodrill Board endeavour to exercise objective and independent judgment on all corporate affairs.
6. The best measure of the Board's effectiveness is through an assessment process. The Board carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.
7. Members of the Philodrill Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

**DISCLOSURE AND TRANSPARENCY**

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

9. The Company shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.
10. The Company shall ensure that material and reportable non-financial and sustainability issues are disclosed.
11. The Company will maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.

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

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

## **CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS**

13. The Company treats all shareholders fairly and equitably, and also recognizes, protects and facilitates the exercise of their rights.

## **DUTIES TO STAKEHOLDERS**

14. The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders will have the opportunity to obtain prompt effective redress for the violation of their rights.
15. A mechanism for employee participation will be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.
16. The Company will be socially responsible in all its dealings with the communities where it operates. It will ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

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

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

**1.1** The Philodrill Board is composed of directors with a collective working knowledge, experience or expertise that is relevant to the Company's industry/sector. The Board is a mix of industry experts that have run the Oil & Gas business for decades and well educated young blood that provides the Board with a more aggressive perspective, with calculated risks. The Board always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

**1.2** The Board is composed of a majority of non-executive directors, seven (7) out of nine (9) are non-executives, including the two (2) Independent Directors, who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

**1.3** The Company has adopted a policy on the training of Directors, including an orientation program for first-time Directors and relevant annual continuing training for all Directors.

The Philodrill Corporation ensures that all directors are properly oriented upon joining the board. New members of the Board are appropriately apprised of their duties and responsibilities, before beginning their directorships. Trainings are conducted to cater to the specific needs of the Company and the individual Directors and aid any new director in effectively performing his or her functions.

Philodrill strongly believes in continuous learning. Training and Development is given utmost importance in the Company across all levels. The Board of Directors, the highest level in the organizational structure, requires training and development too. Directors need to update themselves in order to provide best services to the company.

**1.4** The Board shall have a policy on board diversity to avoid groupthink and ensure that optimal decision-making is achieved.

**1.5** The Board ensures that it is assisted in its duties by a Corporate Secretary. The Corporate Secretary is not be a member of the Board of Directors and shall annually attend a training on Corporate Governance.

The Corporate Secretary has, among others, the following duties and responsibilities:

- a. Assists the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and

the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;

b. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the corporation;

c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairman on all relevant issues as they arise;

d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders;

e. Advises on the establishment of board committees and their terms of reference;

f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;

h. Performs required administrative functions;

i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and

j. Performs such other duties and responsibilities as may be provided by the SEC.

**1.6** The Board shall ensure that it is assisted in its duties by a Compliance Officer, who shall have a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation. The Compliance Officer is not a member of the Board of Directors and shall annually attend a training on Corporate Governance.

The Compliance Officer is a member of the Company's management team in charge of the compliance function. Similar to the Corporate Secretary, he/she is primarily liable to the corporation and its shareholders, and not to the Chairman or

President of the Company. He/she has, among others, the following duties and responsibilities:

- a. Ensures proper onboarding of new directors (i.e., orientation on the Company's business, charter, articles of incorporation and by-laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the SEC when summoned in relation to compliance with this Code;
- f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- g. Identifies possible areas of compliance issues and works towards the resolution of the same;
- h. Ensures the attendance of board members and key officers to relevant trainings; and
- i. Performs such other duties and responsibilities as may be provided by the SEC.

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

**2.1** The Board members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all shareholders.

**2.2** The Board shall oversee the development of and approve the Company's business objectives and strategy, and monitor their implementation, in order to sustain the Company's long-term viability and strength.

**2.3** The Board is headed by a competent and qualified Chairperson.

The roles and responsibilities of the Chairman include, among others, the following:

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

**2.4** The Board is responsible for ensuring and adopting an effective succession planning program for Directors, key Officers and Management to ensure growth and a continued increase in the shareholders' value. This shall include adopting a policy on the retirement age for key officers as part of management succession and to promote dynamism in the corporation.

**2.5** The Board shall align the remuneration of key Officers and Board members with the long-term interests of the Company. Furthermore, no Director shall participate in discussions or deliberations involving his own remuneration.

For employees in control functions (e.g., risk, compliance and internal audit), their remuneration is determined independent of any business line being overseen, and performance measures are based principally on the achievement of their objectives so as not to compromise their independence.

**2.6** The Board shall have and disclose in its Manual on Corporate Governance a formal and transparent board nomination and election policy that shall include how it accepts nominations from minority shareholders and reviews nominated candidates. The policy shall also include an assessment of the effectiveness of the Board's

processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors shall be aligned with the strategic direction of the Company.

The nomination and election process also includes the review and evaluation of the qualifications of all persons nominated to the Board, including whether candidates: (1) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the entity's business and risk profile; (2) have a record of integrity and good repute; (3) have sufficient time to carry out their responsibilities; and (4) have the ability to promote a smooth interaction between board members.

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

- a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust Company, investment house or as an affiliated person of any of them;
- b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust Company, investment house, or investment Company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) above, or wilfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him



from membership, participation or association with a member or participant of the organization;

c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counselled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

e. Any person judicially declared as insolvent;

f. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

g. Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and

h. Other grounds as the SEC may provide.

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

a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election;

b. Dismissal or termination for cause as director of any publicly-listed Company, public Company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

c. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its

subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and

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

**2.7** The Board has overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy shall include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy shall encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations.

**2.8** The Board is primarily responsible for approving the selection and assessing the performance of the Management led by the President/Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).

The Board is responsible in appointing a competent management team at all times, monitor and assess the performance of the management team based on established performance standards that are consistent with the Company's strategic objectives, and conduct a regular review of the Company's policies with the management team. In the selection process, fit and proper standards are to be applied on key personnel and due consideration is given to integrity, technical expertise and experience in the Oil & Gas industry.

**2.9** The Board will establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management.

The results of performance evaluation shall be linked to other human resource activities such as training and development, remuneration, and succession planning. These shall likewise form part of the assessment of the continuing fitness and propriety of management.

**2.10** The Board ensures that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board shall also approve the Internal Audit Charter.

The Board's oversight responsibility may include overseeing the implementation of the key control functions, such as risk management, compliance and internal audit, and reviewing the corporation's human resource policies, conflict of interest situations, compensation program for employees and management succession plan.

**2.11** The Board oversees that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework shall guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

**2.12** The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the directors in the performance of their functions and shall be publicly available and posted on the Company's website.

### **3. ESTABLISHING BOARD COMMITTEES**

**3.1** The Board shall establish board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.

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

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

- a. Recommends the approval the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter;
- b. Through the Internal Auditor (IA), monitors and evaluates the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks

and balances shall be in place in order to (a) safeguard the Company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Company's financial data, and (d) ensure compliance with applicable laws and regulations;

c. Oversees the Internal Audit, and recommends the appointment and/or grounds for approval of an Internal Auditor. The Audit Committee shall also approve the terms and conditions for outsourcing internal audit services;

d. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, he shall directly report to the Audit Committee;

e. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;

f. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

g. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the corporation's Annual Report and Annual Corporate Governance Report;

h. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:

- Any change/s in accounting policies and practices
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements

i. Reviews the disposition of the recommendations in the External Auditor's management letter;

j. Performs oversight functions over the corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

k. Coordinates, monitors and facilitates compliance with laws, rules and regulations;

l. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the corporation, and provides an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders; and

m. In case the Company does not have a Board Risk Oversight Committee and/or Related Party Transactions Committee, performs the functions of said committees as provided under Recommendations 3.4 and 3.5.

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

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

The Corporate Governance Committee (CG Committee) is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. It has the following duties and functions, among others:

a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the corporation's size, complexity and business strategy, as well as its business and regulatory environments;

b. Oversees the periodic performance evaluation of the Board and its committees as well as executive management, and conducts an annual self-evaluation of its performance;

- c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- d. Recommends continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers, and remuneration packages for corporate and individual performance;
- e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Proposes and plans relevant trainings for the members of the Board;
- g. Determines the nomination and election process for the Company's directors and has the special duty of defining the general profile of board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and
- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the corporation's culture and strategy as well as the business environment in which it operates.

**3.4** The Audit Committee shall be responsible for the oversight of a company's Enterprise Risk Management system to ensure its functionality and effectiveness. Based on the needs of the operations, the Board may establish a separate Board Risk Oversight Committee (BROC). The BROC should be composed of at least three members, the majority of whom should be independent directors, including the Chairman. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management.

**3.5** All established committees shall be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters shall provide the standards for evaluating the performance of the Committees. It shall also be fully disclosed on the Company's website.

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

**4.1** The directors shall attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission, except

when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

**4.2** The non-executive directors of the Board may concurrently serve as directors to a maximum of five publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of the Company.

**4.3** A director shall notify the Board where he/she is an incumbent director before accepting a directorship in another Company.

## **5. REINFORCING BOARD INDEPENDENCE**

**5.1** The Board shall have at least two (2) independent directors, or such number as to constitute at least 20% of the members of the Board, whichever is higher.

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

An Independent Director refers to a person who, ideally:

a. Is not, or has not been a senior officer or employee of the covered Company unless there has been a change in the controlling ownership of the Company;

b. Is not, and has not been in the three years immediately preceding the election, a director of the covered Company; a director, officer, employee of the covered Company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the covered Company's substantial shareholders and its related companies;

c. Has not been appointed in the covered Company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;

d. Is not an owner of more than two percent (2%) of the outstanding shares of the covered Company, its subsidiaries, associates, affiliates or related companies;

e. Is not a relative of a director, officer, or substantial shareholder of the covered Company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;

f. Is not acting as a nominee or representative of any director of the covered Company or any of its related companies;

g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;

h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the covered Company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;

i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with the covered Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

j. Is not affiliated with any non-profit organization that receives significant funding from the covered Company or any of its related companies or substantial shareholders; and

k. Is not employed as an executive officer of another Company where any of the covered Company's executives serve as directors.



Related companies, as used in this section, refer to (a) the covered entity's holding/parent Company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent Company.

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

**5.4** The positions of Chairman of the Board and Chief Executive Officer may be held by separate individuals and each position shall have clearly define responsibilities.

The CEO has the following roles and responsibilities, among others:

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

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

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

## **6. ASSESSING BOARD PERFORMANCE**

**6.1** The Board conducts annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. The Board may consider engaging an external facilitator to support the assessment. The assessment shall be supported by an external facilitator.

**6.2** The Board adopts a system to determine the performance of the Board, the individual directors, committees and such system shall allow for a feedback mechanism from the shareholders.

## **7. STRENGTHENING BOARD ETHICS**

**7.1** The Board shall adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behaviour, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code shall be properly disseminated to the Board, senior management and employees. It shall also be disclosed and made available to the public through the Company website.

**7.2** The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

## **DISCLOSURE AND TRANSPARENCY**

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

**8.1** The Board implements corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a Company's financial condition, results and business operations.

**8.2** The Company shall have a policy requiring all directors and officers to disclose/report to the Company any dealings in the Company's shares within ten days, in accordance with the requirements of the SRC.

**8.3** The Board shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.

**8.4** The Company maintains clear policies and procedures for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report. The Company shall disclose the remuneration including termination and retirement provisions.

**8.5** The Company shall disclose its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance. The material or significant RPTs reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report.

**8.6** The Company shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board may appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

**8.7** The Company's corporate governance policies, programs and procedures shall be contained in its Manual on Corporate Governance, which shall be submitted to the regulators and posted on the Company's website.

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

**9.1** The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor shall be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change shall be disclosed to the regulators and the public through the Company website and required disclosures.

**9.2** The Audit Committee Charter shall include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and

exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter shall also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

**9.3** The Company shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee shall be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

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

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

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

**11.1** The Company shall include media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.

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

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

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

**12.2** The Company shall have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations.

Independent Audit shall provide a systematic, disciplined approach to evaluating and improving the effectiveness of the Company's governance, risk management and control functions. The following are the functions of the internal audit, among others:

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

**12.3** A Chief Audit Officer (CAO) shall be appointed by the Board. The CAO shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider.

The CAO shall directly report to the Audit Committee and administratively to the President. The following are the responsibilities of the CAO, among others:

- a. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
- b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;

c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;

d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;

e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and

f. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

**12.4** The Company shall have a separate risk management function to identify, assess and monitor key risk exposures.

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

a. Defining a risk management strategy;

b. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objectives;

c. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;

d. Establishing a risk register with clearly defined, prioritized and residual risks;

e. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;

f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and

g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

**12.5** In managing the Company's Risk Management System, the Company shall have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his responsibilities.

The CRO has the following functions, among others:

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

There shall be clear communication between the BROOC and the CRO.

## **CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS**

### **13. PROMOTING SHAREHOLDER RIGHTS**

**13.1** The Board recognizes and ensures that the following basic shareholder rights are protected:

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. 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.

#### c. 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 and must be communicated to the Corporate Secretary on time.
- 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".

#### d. Right to Dividends

- Shareholders shall have the right to receive dividends upon determination 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.

#### e. 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.

f. Right to propose holding of meetings

Shareholders have the right to propose the holding of meetings and inclusion of items in the agenda, subject to minimum stockholding requirements as may be determined by the Board.

g. Right to nominate Candidates

Shareholders are given the opportunity to nominate candidates, subject to the pre-qualification requirements and procedures of the Nominations Committee

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 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.

Shareholders are encouraged to participate on fundamental corporate changes such as: (1) amendments to the Articles of Incorporation and By-Laws of the Company; (2) the authorization on the increase in authorized capital stock; and (3) extraordinary

transactions, including the transfer of all or substantially all assets that in effect result in the sale of the Company.

**13.2** The Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 30 days before the meeting. The Notice is also posted on the Company's website [www.philodrill.com](http://www.philodrill.com)

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

**13.4** The Board shall make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner. This shall be included in the Company's Manual on Corporate Governance.

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

## **DUTIES TO STAKEHOLDERS**

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

**14.1** The Board shall identify the Company's various stakeholders and promote cooperation between them and the Company in creating wealth, growth and sustainability.

**14.2** The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.

**14.3** The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Company and to obtain redress for the violation of their rights.

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

**15.1** The Board shall establish policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and in its governance. The Board shall establish policies and programs covering, among others, the following: (1) health, safety and welfare; (2) training and development; and (3)

reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in the corporation.

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

**15.3** The Board shall establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

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

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

*The foregoing Manual on Corporate Governance has been adopted by the Company, May 2017.*



**ALFREDO C. RAMOS**  
Chairman of the Board



**ADRIAN S. ARIAS**  
Compliance Officer