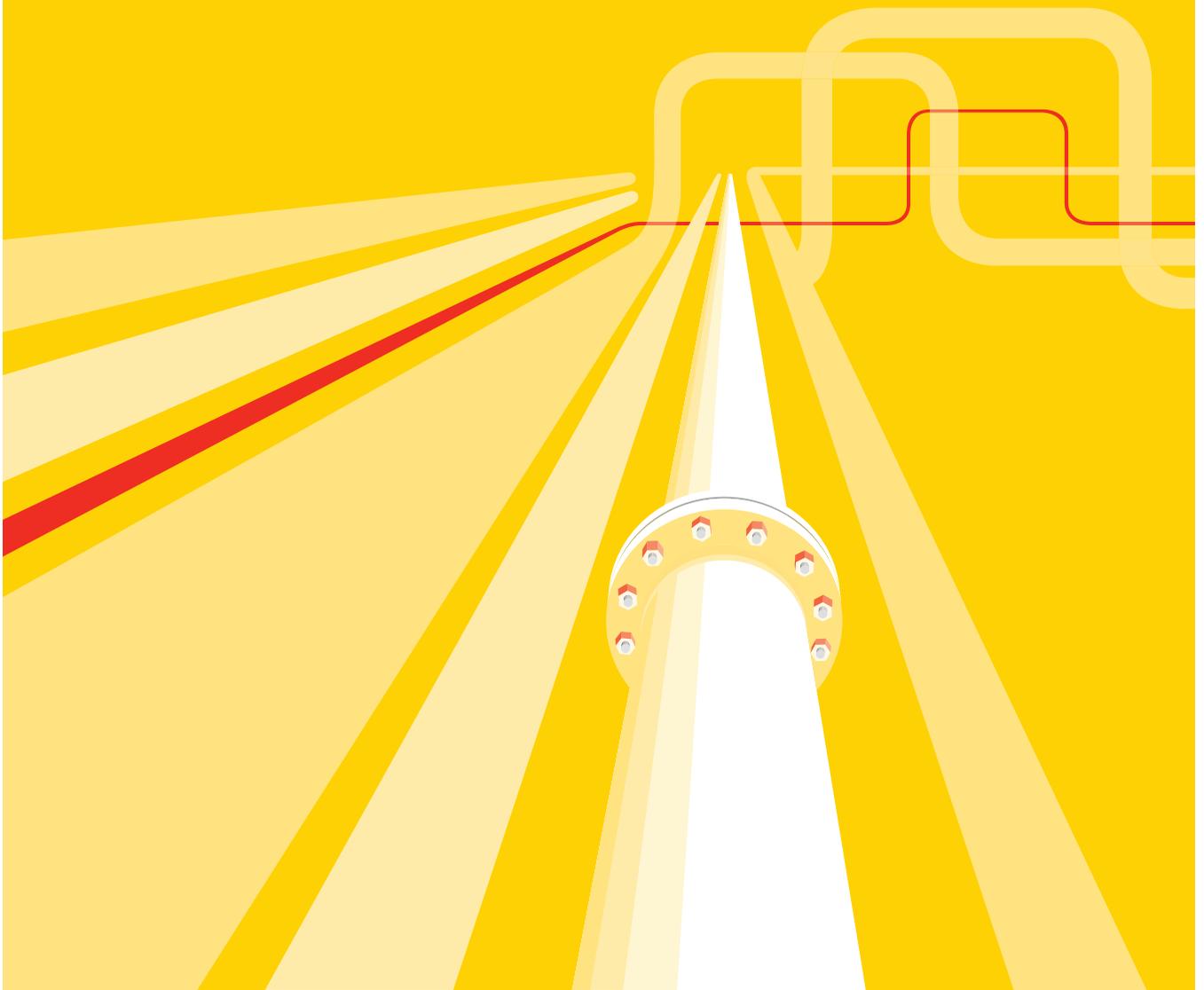


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PILIPINAS SHELL PETROLEUM CORPORATION

# CORPORATE GOVERNANCE MANUAL





PILIPINAS SHELL PETROLEUM CORPORATION  
REVISED MANUAL ON CORPORATE GOVERNANCE

## TABLE OF CONTENTS

	FOREWORD	i
1.	OBJECTIVE	1
2.	COMPLIANCE SYSTEM	1
2.1.	CHIEF COMPLIANCE OFFICER	1
2.1.1.	Qualification of Chief Compliance Officer	1
2.1.2.	Duties of Chief Compliance Officer	1
2.2.	PLAN OF COMPLIANCE	3
2.2.1.	Board of Directors	3
2.2.1.1.	General Responsibility	4
2.2.1.2.	Specific Duties and Functions of the Board	4
2.2.1.3.	Specific Duties and Responsibilities of a Director	5
2.2.1.4.	Duties and Responsibilities of the Chairman of the Board	8
2.2.1.5.	Duties and Responsibilities of the CEO	9
2.2.2.	Composition of the Board of Directors	9
2.2.2.1.	Independent Directors	10
2.2.2.2.	Non-Executive Directors	13
2.2.3.	Board Committees	13
2.2.3.1.	Nomination Committee	13
2.2.3.2.	Board Audit and Risk Oversight Committee	17
2.2.3.2.1.	Duties and Responsibilities	17
2.2.3.3.	Corporate Governance (CG) Committee	20
2.2.3.3.1.	CG Committe	20
2.2.3.3.2.	Duties and Responsibilities	20

PILIPINAS SHELL PETROLEUM CORPORATION  
REVISED MANUAL ON CORPORATE GOVERNANCE

## TABLE OF CONTENTS

	2.2.3.4 Related Party Transaction (RPT) Committee	22
	2.2.3.4.1 Duties and Responsibilities	22
	2.2.3.5 Committee Charters	23
	2.4.4 Board Meeting via Teleconferencing or Videoconferencing	23
	2.2.5 The Corporate Secretary	25
	2.2.6 Enhancing Accountability and Strengthening the External Auditor’s Independence and Improving Audit Quality	27
	2.2.7 Internal Auditor	28
	2.2.8 Assessing Board Performance	29
	2.2.9 Strengthening Board Ethics	30
3.	COMMUNICATIONS PROCESS	30
4.	TRAINING PROCESS	31
5.	ENHANCING THE REPORTORIAL AND DISCLOSURE SYSTEM, POLICIES AND PROCEDURES OF COMPANY’S CORPORATE GOVERNANCE POLICIES	31
6.	INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING	34
7.	PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION	34
8.	STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ERM FRAMEWORK	34
9.	SHAREHOLDERS’ BENEFIT	36
	9.1. Rights of Investors/Minority Interests	37
	9.1.1 Voting Right	37
	9.1.2 Power of Inspection	37
	9.1.3 Right to Information	37
	9.1.4 Rights to Dividends	38
	9.1.5 Appraisal Right	38

PILIPINAS SHELL PETROLEUM CORPORATION  
REVISED MANUAL ON CORPORATE GOVERNANCE

## TABLE OF CONTENTS

	9.1.6. Nomination Process for Directors	38
	9.2 Protecting Shareholders' Rights	39
	9.3 Investor Relations Office ("IRO")	40
10.	DUTIES TO STAKEHOLDERS	40
	10.1 Respecting Rights of Stakeholders and Effective Redress for Violation of Stakeholders Rights	40
	10.1 Respecting Rights of Stakeholders and Effective Redress for Violation of Stakeholders Rights	40
	10.2 Encouraging Employees' Participation	40
11.	MONITORING AND ASSESSMENT	41
12.	PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL	42
	Signatures	43

# FOREWORD

Good corporate governance fuels a company's sustainability and drives its long-term viability and success.

Through its governance covenant, Pilipinas Shell Petroleum Corporation (the "Corporation") builds the trust and confidence of its various and diverse stakeholders. As corporate governance starts with the Board of Directors, the Corporation's directors expressly abide by their fiduciary duties of obedience, loyalty, diligence and care. Our directors act in the best interest of the Corporation and its stakeholders through transparency, accountability, and fairness. Investors are assured that their shareholders' rights and investments in the Corporation are protected as we aim for the Corporation's growth and a continued increase in the shareholders' value. Our employees can likewise participate in the realization of the goals of the Corporation and in its governance.

We adopt full disclosure of material information about the Corporation to the public. Rest assured that the public is aware of the Corporation's financial and non-financial performance. Non-financial information includes economic, environmental, social and governance (EESG) issues of the business, which underpin sustainability. We evaluate and monitor the implementation of policies and strategies and the Board's and Management's performance.

In this Manual, changes were introduced to reflect the best practices on corporate governance. The newly created Corporate Governance Committee ensures compliance with corporate governance principles and practices. The Board Audit and Risk Oversight Committee has enhanced oversight capability over the Corporation's financial reporting, internal control system and internal and external audit processes.

The Related Party Transactions Committee guarantees fairness and transparency in the transactions of the Corporation as we maintain the integrity and transparency of related party transactions and other unusual or infrequently occurring transactions. The Office of the Chief Compliance Officer was created to monitor, review, evaluate and ensure the compliance by the Corporation, its officers and directors with the relevant laws, rules and regulations.

By publishing this Manual, we want to acknowledge the commitment of the Corporation to our core values of honesty, integrity, and respect for people, the Shell General Business Principles and the concept of sustainable development. Together, we uphold a strong corporate governance culture in the Corporation.

**JANNET C. REGALADO**  
CHIEF COMPLIANCE OFFICER

# REVISED MANUAL ON CORPORATE GOVERNANCE

The Board of Directors, Corporate Officers, and Management of PILIPINAS SHELL PETROLEUM CORPORATION (the "Corporation"), hereby commit themselves to the principles contained in this Revised Manual on Corporate Governance (the "Manual") and acknowledge that the same may guide the Corporation in the attainment of its goals and targets.

## 1. OBJECTIVE

This Manual shall supplement and reaffirm the Corporation's commitment to the Shell General Business Principles and to the concept of sustainable development, both of which govern how each of the Shell companies conducts its affairs.

Shell companies have as their core values honesty, integrity, and respect for people. These underlying corporate values determine principles that we apply to all transactions, large or small, and drive the behavior expected of every employee in every Shell company in the conduct of its business at all times.<sup>1</sup>

Part of these principles is the institutionalization of good governance as a crucial factor to the Shell Group's continued growth and success. The Corporation's Board of Directors, Management, employees and shareholders shall thereby undertake every necessary effort to create awareness of said principles within the organization.

This Manual is issued in compliance with the Securities and Exchange Commission (the "Commission" or "SEC") Memorandum Circular No. 19, Series of 2016 dated 22 November 2016, otherwise known as the Code of Corporate Governance for Publicly-Listed Companies, to develop a strong corporate governance culture in line with recent developments in corporate governance (e.g. G20/OECD Principles of Corporate Governance, ASEAN Corporate Governance Scorecard).

## 2. COMPLIANCE SYSTEM

### 2.1 CHIEF COMPLIANCE OFFICER

- 2.1.1 Qualification of Chief Compliance Officer - To ensure adherence to corporate principles and best practices provided for in this Manual, the Board of Directors shall designate a Chief Compliance Officer who shall have a rank of Senior Vice President or an equivalent position. The Chief Compliance Officer shall not be a member of the Board and shall attend a training on corporate governance every year.

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<sup>1</sup> Adopted from the *Living by our Principles of the Shell General Business Principles* made by Ben van Beurden, Chief Executive Officer, 2014.

Further note: The Objectives have been rewritten to integrate the Shell Group's corporate values into the concept of good corporate governance.

He<sup>2</sup> shall have direct reporting responsibilities to the Chairman of the Board but shall be primarily liable to the Corporation and its shareholders, and not to the Chairman or President of the Corporation. The Chief Compliance Officer should be a separate individual from the Corporate Secretary. In order for him to ably and properly fulfill his responsibilities, the Chief Compliance Officer shall be provided with appropriate support and resources.

2.1.2 Duties of Chief Compliance Officer - He shall perform the following duties and responsibilities:

- a. In coordination with the Corporate Secretary, ensure proper onboarding of new directors such as providing orientation programs on the Corporation's business, articles of incorporation and by-laws, among others;
- b. Monitor, review, evaluate and ensure the compliance by the Corporation, its officers and directors with the relevant laws, provisions and requirements of this Manual, rules and regulations and all governance issuances of regulatory agencies;
- c. Appear before the Commission upon summons on similar matters that need to be clarified by the same in relation to the compliance with the Manual;
- d. Determine violation/s of the Manual and recommend imposition of appropriate disciplinary action for violations thereof for further review and approval of the Board and the adoption of measures to prevent a repetition of the violations;
- e. Ensure the integrity and accuracy of all documentary submissions to regulators;
- f. Collaborate with the Corporate Secretary and other departments to properly address compliance issues, which may be subject to investigation and subsequent litigation;
- g. Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s for the latter's deviation from the same;
- h. In coordination with the Corporate Secretary, ensure the attendance of board members and key officers in relevant trainings;
- i. Identify and monitor compliance risks and issues and work towards the resolution of the same; and

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<sup>2</sup> For reasons of legibility and ease of reference, the pronouns used in this document, though appearing to be gender-specific, are deemed to be gender-neutral and include all genders. Hence, the simultaneous use of male, female, and other gender-neutral pronouns is dispensed with. Accordingly, the use of "he", "him", "his" and "himself" in this Manual is not gender inclusive and shall also refer to "she", "her", "hers" and "herself".

- j. Perform such other duties and responsibilities as may be necessary or appropriate to ensure adherence to this Manual, its general principles and best practices on good corporate governance.

## 2.2 PLAN OF COMPLIANCE

### 2.2.1 Board of Directors

The Board of Directors is responsible for corporate policies and the general management of the business and affairs of the Corporation. It exercises almost all the corporate powers, lays down all policies and is relied upon to run the business as efficiently as possible. Thus, compliance with the principles of good corporate governance shall start with the Board of Directors.<sup>3</sup>

The Board shall be composed of directors with a collective working knowledge, experience or expertise that is relevant to the Corporation. The Board shall 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.

Being agents of the shareholders, the Directors are fiduciaries and the relationship thereby created is one of trust and confidence. These fiduciary responsibilities basically include the duties of obedience, loyalty, diligence and care. But since corporations are integral parts of the communities or societies in which they operate, there is now a growing need for the Board of every corporation to conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.<sup>4</sup>

The Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the Corporation and all stockholders. To enable the members of the Board to properly fulfill their duties and responsibilities, Management, through the Corporate Secretary, shall provide them with complete, adequate and timely information about the matters to be discussed in meetings at least five (5) working days in advance.

The members of the Board shall be given independent access to Management and the Corporate Secretary.

The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall likewise have access to independent professional advice at the Corporation's expense, subject to such guidelines as shall be prescribed by the Board.

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<sup>3</sup> We integrated the general functions and obligations of the Board of Directors under the Corporation's internal primer and the Corporation Code with those characteristics proposed under the Manual.

<sup>4</sup> Same as above.

### 2.2.1.1 General Responsibility

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

The Board should oversee the development of, formulate, and approve the Corporation's vision, mission, strategic objectives, business objectives and strategy, policies, and procedures that shall guide its activities, including the means to effectively monitor Management's performance. It shall also monitor their implementation, in order to sustain the Corporation's long-term viability and strength.

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 guide the directors in the performance of their functions and it shall be made publicly available and posted on the website of the Corporation.

### 2.2.1.2 Specific Duties and Functions of the Board

To ensure a high standard and best practice for the Corporation, 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:

- a. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Adopt a policy on Board diversity, which may include diversity in gender, age, ethnicity, culture, skills, competence and knowledge;
- b. Appoint a competent, professional, honest and effective succession planning program for directors, key officers and Management to ensure growth and a continued increase in the shareholders' value. This should include adopting a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Corporation;
- c. Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies including business plans, operating budgets and Management's overall performance;
- d. Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices;
- e. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Corporation. If feasible, the Corporation's chief executive officer ("CEO") or chief financial officer shall exercise oversight responsibility over this program;

- f. Identify the Corporation's stakeholders in the communities in which the Corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them;
- g. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system shall be conducted to ensure the integrity of the decision-making and reporting process at all times, as well as a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness;
- h. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Corporation to anticipate and prepare for possible threats to its operation and financial viability;
- i. Constitute and establish board committees such as Board Audit and Risk Oversight Committee, Corporate Governance Committee ("CG Committee"), Related Party Transaction Committee ("RPT Committee"), and such other committees that focus on specific board functions which it deems necessary to assist the Board in the optimal performance of its duties and responsibilities;
- j. Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including regulatory authorities;
- k. Meet at such times or frequency as may be needed. The minutes of such meetings shall be duly recorded. Independent views during the Board meetings shall be encouraged and given due consideration;
- l. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions ("RPTs") between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers, and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationship by members of the Board;
- m. Ensure that there is a policy governing RPTs and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy should include the appropriate review and approval of material of significant RPTs, which guarantee fairness and transparency of the transactions. The policy should encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations. The RPT policy of the Corporation shall contain the following, among others:
  - Definition of related parties;
  - Coverage of RPT policy;
  - Guidelines in ensuring arms-length terms;

- Identification and prevention or management of potential or actual conflicts of interest which arise;
  - Adoption of materiality thresholds;
  - Internal limits for individuals and aggregate exposure;
  - Whistle-blowing mechanisms; and
  - Restitution of losses and other remedies for abusive RPTs.
- n. Align the remuneration of key officers and board members with the long-term interests of the Corporation. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance. Further, it shall ensure that no director shall participate in discussions or deliberations involving his own remuneration;
- o. Approve the selection and assess the performance of the Management led by the CEO, and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive);
- p. Establish an effective performance management framework that will ensure that the Management, including the CEO, and personnel's performance is at par with the standards set by the Board and Senior Management;
- q. Oversee 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 minimum internal control mechanisms 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;
- r. Oversee 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 should guide the Board in identifying units or business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies; and
- s. Keep the activities and decision of the Board within its authority under the articles of incorporation and By-Laws of the Corporation, and in accordance with existing laws, rules and regulations.

### 2.2.1.3 Specific Duties and Responsibilities of a Director

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

A director should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Corporation and all stockholders and other stakeholders.

A director shall observe the following norms of conduct:

- a. Conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interest of the Corporation. The basic principle to be observed is that a director shall not use his position to profit or gain some benefit or advantage for himself and/or his related interest. He shall avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he shall fully and immediately disclose it and shall not participate in the decision-making process. A director with a material interest in any transaction affecting the Corporation shall abstain from taking part in the deliberation for the same. A director who has a continuing material conflict of interest should seriously consider resigning from his position.

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

- b. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.

A director shall devote sufficient time to familiarize himself with the Corporation's business. He shall be constantly aware of and knowledgeable in the Corporation's operations to enable him to meaningfully contribute to the Board's work. He shall attend and actively participate in all Board, committee, and shareholders' meetings 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 him from doing so. In Board and Committee meetings, the director should review meeting materials and, if called for, ask necessary questions or seek clarifications and explanations.

- c. Act judiciously

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

- d. Exercise independent judgment

A director shall 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 Corporation.

- e. A director should have a working knowledge of the statutory and regulatory requirements that affect the Corporation, including its articles of incorporation and by-laws, the rules and regulations of the SEC, and where applicable, the requirements of relevant regulatory agencies.

A director shall also keep abreast with industry developments and business trends in order to promote the Corporation's competitiveness. Non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

- f. Observe confidentiality

A director shall keep 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.

#### 2.2.1.4 Duties and Responsibilities of the Chairman of the Board

The Board shall be headed by a competent and qualified Chairman. To avoid conflict or a split board and to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making, the Chairman of the Board shall be a separate person from the CEO.

The duties and responsibilities of the Chairman in relation to the Board 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;
- f. Makes sure that performance of the Board is evaluated at least once a year and discussed or followed up on;

- g. Ensures that the meetings of the Board are held in accordance with the by-laws or as the Chairman may deem necessary;
- h. 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
- i. Maintains qualitative and timely lines of communication and information between the Board and Management.

#### 2.2.1.5 Duties and Responsibilities of the CEO

The duties and responsibilities of the CEO include, among others, the following:

- 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.

#### 2.2.2 Composition of the Board of Directors

The Board shall be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective and independent judgment on corporate affairs, and to substantiate proper checks and balances.

The Board shall have at least three (3) independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher.

The Board shall designate a lead director among the independent directors if the Chairman of the Board is not an independent director. The functions of the lead director include, among others, (1) serving as an intermediary between the Chairman and the other directors when necessary; (2) convening and presiding as Chairman in meetings of the non-executive directors; and (3) contributing to the performance evaluation of the Chairman, as required.

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

#### 2.2.2.1 Independent Directors

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

- a. Is not, or has not been a senior officer or employee of the Corporation unless there has been change in controlling ownership of the company;
- b. Is not, and has not been in the three years immediately preceding his initial election to the Board as an Independent Director, a director of the Corporation; a director, officer, employee of the Corporation's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the Corporation's substantial shareholders and its related companies;
- c. Has not been appointed in the Corporation, 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 (3) years immediately preceding his election;
- d. Is not a director or officer of the company or of its related companies or any of its substantial shareholders, except when he shall be as an independent director of any of the foregoing;
- e. Is not an owner of more than two percent (2%) of the outstanding shares of the Corporation, its subsidiaries, associates, affiliates or related companies;
- f. Is not a relative of a director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother, or sister;

- g. Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a deed of trust or any arrangement;
- h. 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;
- i. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the Corporation, any of its related companies or substantial shareholders, or is otherwise independent of Management and free from any business or other relationship with the foregoing within the three years immediately preceding the date of his election;
- j. 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 Corporation 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;
- k. Is not affiliated with any non-profit organization that receives significant funding from the Corporation or any of its related companies or substantial shareholders, except as an elective or independent trustee or director of such non-profit organization; and
- l. Is not employed as an executive officer of another company where any of the Corporation's executives serve as directors.

No person convicted by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years or a violation of the Securities Regulation Code committed within five (5) years prior to the date of the Independent Director's election, shall qualify as such.

Any controversy or issue arising from the selection, nomination or election of independent directors shall be resolved by the Commission by, among others, appointing Independent Directors from the list of nominees submitted by the stockholders.

"Related companies" are those companies which are the corporation's holding company, subsidiary, or a subsidiary of its holding company. "Substantial shareholder" is any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of the corporation's equity security.

An independent director shall have the following qualifications:

- He shall have at least one (1) share of stock of the corporation;

- He shall be at least a college graduate or he shall have been engaged or exposed to the business of the corporation for at least five (5) years;
- He shall possess integrity/probity; and
- He shall be assiduous.

No person shall qualify as an Independent Director under the following circumstances or causes:

- He becomes an officer or employee of the corporation where he is such member of the Board or becomes any of the persons disqualified to be a director enumerated under Code of Corporate Governance For Publicly Listed Companies; or
- Fails, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings.

#### Nomination and Election of Independent Directors

- Nomination of Independent Directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
- The Nomination Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for Independent Director/s.
- After the nomination, the Nomination Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for Independent Directors, which list shall be made available to the Commission and to all stockholders through the information statement. The name of the person or group of persons who recommended the nomination of the Independent Director shall be identified in such report including any relationship with the nominee.
- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Directors. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual meeting.

The Board's Independent Directors shall serve for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from re-election as such in the Corporation, but may continue to qualify for nomination and election as a non-independent director. Should the Corporation decide to retain an independent director who has served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

In case of resignation, disqualification, or cessation of Independent Directorship and only after notice has been made to the Commission within five (5) days from such resignation, disqualification or cessation, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, upon the nomination of the Nomination Committee. Otherwise, the vacancies shall be filled by the stockholders in a regular or special meeting called for that purpose. An Independent Director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.

#### 2.2.2.2 Non-Executive Directors

Non-Executive Directors (“NEDs”) are directors who have no executive responsibility and do not perform any work related to the operations of the Corporation.

The NEDs should 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 with the Corporation. The meeting shall be chaired by the lead independent director.

#### 2.2.3 Board Committees

The Board shall constitute the proper committees to assist it in good corporate governance. The Board shall establish board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.

##### 2.2.3.1 Nomination Committee

The Board shall create a Nomination Committee which shall have at least three (3) voting members (one of whom must be an independent director) and one (1) non-voting member in the person of the HR General Manager.<sup>5</sup>

Transparent Board’s nomination and election process shall be promoted.

2.2.3.1.1. It shall ensure that all candidates nominated to become a member of the Board of Directors shall have the following qualifications and none of the disqualifications:<sup>6</sup>

##### 2.2.3.1.2. Qualifications

- Holder of at least one (1) share of stock of the Corporation;
- He shall be at least a college graduate or have sufficient experience in managing the business to substitute for such formal education;
- He shall be at least twenty-one (21) years old;

<sup>5</sup> In the Corporation, the HR General Manager is of VP level.

<sup>6</sup> We are of the opinion that the terms “pre-screening and shortlisting” may create unnecessary and negative relationship issues within the Board. However, to safeguard the purpose of this Manual, we stipulated that the Nomination Committee will ensure that the directors meet the qualifications stated therein.

- He shall have proven that he possesses integrity, good repute, probity and diligence; and
- He shall have the ability to promote a smooth interaction between board members.
- Permanent Disqualifications

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

- Any person convicted by the 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;
- 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 (the "BSP") or any court or administrative body of a 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 to engage in the activities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities;

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

- 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, misappropriations, forgery, bribery, false affirmation, perjury, or other fraudulent acts;

- 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, 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 its rules, regulations or orders;
- Any person earlier elected as an independent director who becomes an officer, employee or consultant of the same Corporation;
- Any person judicially declared as insolvent;
- 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 those acts, violations or misconduct enumerated in the first five (5) paragraphs above;
- 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, or
- Other grounds as the SEC may provide.

#### Temporary Disqualifications

Any of the following shall be a ground for the temporary disqualification of a director:

- 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;
- 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 the purpose of the succeeding election;
- 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 should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.

- If the beneficial ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with; or
- 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 disqualifications. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

2.2.3.1.2 In consultation with the other members of the Board, the Nomination Committee shall revisit the role, duties and responsibilities of the CEO, as may be necessary for the business as a going concern and for future expansionary prospects within the realm of good corporate governance at all times. Should the positions of Chairman and CEO be unified in the Corporation, proper checks and balances shall be laid down to ensure that the Board gets the benefit of independent views and perspectives.

2.2.3.1.3 In general, the optimum number of directors shall be related to the capacity of a director to perform his duties diligently and efficiently. The Nomination Committee shall consider the following guidelines in the determination of such number of directorships for the Board:

- The nature of the business of the Corporation of which he is a director;
- Age of the director;
- Number of directorships/active memberships and officerships in other corporations or organizations; and
- Possible conflict of interest.

2.2.3.1.4. A director should notify the Board before accepting a directorship in another company.

2.2.3.1.5. The CEO and other executive directors shall submit themselves to a low indicative limit on membership in other corporate Boards. The nonexecutive directors of the Board, on the other hand, shall concurrently serve as directors in a maximum of five (5) publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals or views, and oversee the long-term strategy of the Corporation.

2.2.3.1.6 Following their election to the Board, new Directors shall receive a comprehensive induction tailored to their individual needs. This includes a visit to the key facilities (e.g. refinery, terminal, service station) and presentations by and meetings with senior management to enable them to build up a detailed understanding of the Corporation's business and strategy, and the key risks and issues faced, as well as participation at relevant corporate governance learning events.

#### 2.2.3.2. Board Audit and Risk Oversight Committee

The Corporation shall establish a Board Audit and Risk Oversight Committee ("Board Audit and Risk Committee") to enhance its oversight capability over the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The Board Audit and Risk Committee shall also be responsible for the oversight of the Corporation's ERM system to ensure its functionality and effectiveness. The Board Audit and Risk Committee shall consist of at least three (3) appropriately qualified nonexecutive directors, the majority of whom, including the Chairman, shall be independent directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance, and at least one (1) member of the committee must have relevant thorough knowledge and experience on risk and risk management. The Chairman of the Board Audit and Risk Committee should not be the chairman of the Board or of any other committees.

##### 2.2.3.2.1 Duties and Responsibilities

For purposes of audit, the Board Audit and Risk Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Board Audit and Risk Committee shall have the following functions:

- a. Recommends the approval of 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. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;
- c. Performs oversight functions over the Corporation's internal and External Auditors. It shall ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

- d. Reviews the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources, and budget necessary to implement it;
- e. Prior to the commencement of the audit, discusses with the external auditor the nature, scope, and expenses of the audit, and ensures proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f. Organizes an Internal Audit ("IA") Department, and consider the appointment of an independent internal auditor and the terms and condition of its engagement and removal;
- g. Through the IA Department, 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 Corporation's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Corporation's financial data, and (d) ensure compliance with applicable laws and regulations;
- h. Oversees the IA Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive ("CAE"). The Board Audit and Risk Committee shall also approve the terms and conditions for outsourcing internal audit services;
- i. Monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;
- j. Reviews the report submitted by the internal and external auditors;
- k. Reviews and approves 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; and
  - Compliance with tax, legal, and regulatory requirements;

- l. Coordinates, monitors, and facilitates compliance with laws, rules and regulations;
- m. Evaluates and determines the non-audit work, if any, of the external auditor, and reviews periodically non-audit fees paid to the external auditor in relation to their significance to the Corporation's overall consultancy expenses. The Board Audit and Risk Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The nonaudit work, if allowed, shall be disclosed in the Corporation's annual report and Annual Corporate Governance Report;
- n. Reviews the disposition of the recommendations in the External Auditor's management letter;
- o. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the SEC, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and
- p. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Board Audit and Risk Committee. The Board Audit and Risk Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by and from outside parties. The Board Audit and Risk Committee shall meet 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.

In terms of risk oversight, the Board Audit and Risk Committee has the responsibility to assist the Board in ensuring that there is an effective and integrated risk management process in place. The Board Audit and Risk Committee shall likewise have the following functions:

- a. Develops a formal ERM plan which contains the following elements:
  - (a) common language or register of risks, (b) welldefined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes, and measures;
- b. Oversees the implementation of the ERM plan through its management risk oversight function. The Board Audit and Risk Committee conducts regular discussions on the Corporation's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;

- c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. The Board Audit and Risk Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;
- d. Advises the Board on its risk appetite levels and risk tolerance limits;
- e. Reviews, at least annually, the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation;
- f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stockholders;
- g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the risk exposures and risk management activities from Management; and
- h. Reports to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

#### 2.2.3.3. Corporate Governance (CG) Committee

2.2.3.3.1 The Corporation shall establish a CG Committee that shall assist the Board in the performance of its corporate governance responsibilities, including the functions formerly assigned to the Compensation and Remuneration Committee. It shall be composed of at least four (4) members, three (3) of whom, including the Chairman, shall be Independent Directors. The fourth (4<sup>th</sup>) member shall be the Chief Compliance Officer.

#### 2.2.3.3.2 Duties and Responsibilities

The CG Committee shall ensure compliance with and proper observance of corporate governance principles and practices.

The CG Committee shall have the following functions:

- 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 the 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; and
- g. 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.

The CG Committee shall likewise perform the following functions formerly assigned to the Compensation and Remuneration Committee:

- 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 the remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy, and control environment;
- b. Designate the amount of remuneration, which shall be in a sufficient level to attract and retain qualified and competent directors and officers who are needed to manage the Corporation sustainably;
- c. Develop a form on Full Business Interest Disclosure as part of the preemployment requirements for all incoming officers, which require, among others, a declaration under the penalty of perjury of all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired;
- d. Disallow any director to decide on his or her own, his or her own remuneration or to participate in discussions or deliberations involving exclusively his or her own remuneration; and

- e. Provide in the Corporation's annual reports and information statements a clear, concise and understandable disclosure of all fixed and variable compensation of its directors and top four (4) management officers for the previous fiscal year and the ensuing year.

The establishment of a CG Committee does not preclude the Corporation from establishing a separate Nomination Committee, if it deems necessary.

#### 2.2.3.4 Related Party Transaction (RPT) Committee

The Corporation shall establish an RPT Committee that shall review all material RTPs of the Corporation and shall be composed of at least three (3) non-executive directors, two (2) of whom shall be independent, including the Chairman.

##### 2.2.3.4.1 Duties and Responsibilities

The RPT Committee shall have the following functions, among others:

- a. Evaluates on an ongoing basis existing relations between and among businesses and counterparts to ensure that all related parties are continuously identified, RTPs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RTPs and changes in relationships should be reflected in the relevant reports to the Board regulators/supervisors;
- b. Evaluates all material RTPs to ensure that these are not undertaken on more favorable economic terms (e.g., price, omissions, interest rates, fees, tenor and collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputation risk issues that may arise as a result of or in connection with the transactions. In evaluating RTPs, the Committee takes into account, among others, the following:
  - The related party's relationship to the Corporation and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to the Corporation of the proposed RPT;
  - The availability of other sources of comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation shall have an effective price discovery system in place and exercise due diligence in determining a fair price for RTPs;

- c. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties;
- d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

#### 2.2.3.5 Committee Charters

All Committees shall have a Committee Charter stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters should provide the standards for evaluating the performance of the Committees. The Charters should provide the standards for evaluating the performance of the Committees. The Charters shall be fully disclosed on the website of the Corporation.

#### 2.2.4 Board Meeting via Teleconferencing or Videoconferencing

The following guidelines shall be observed in conducting meetings via teleconferencing or videoconferencing

##### 2.2.4.1 The Secretary of the meeting shall assume the following responsibilities:

- a. to safeguard the integrity of the meeting via teleconferencing or videoconferencing;
- b. to find good teleconferencing or videoconferencing equipment and facilities;
- c. to record the proceedings and prepare the minutes of the meeting; and
- d. to store for safekeeping and mark the tape recording(s) and/or other electronic recording mechanism as part of the records of the Corporation.

##### 2.2.4.2 The Secretary shall send out the notices of the meetings to all Directors in accordance with the manner of giving notice as stated in the By-Laws of the

Corporation, at least five (5) working days in advance. A notice shall include the following:

- a. Inquiry on whether the director will attend physically or through teleconferencing or videoconferencing;
- b. Contact number(s) of the Secretary and office staff whom the director may call to notify and state whether he shall be physically present or shall attend through teleconferencing or videoconferencing;
- c. Agenda of the meeting;
- d. All documents to be discussed in the meeting, including attachments, which shall be numbered and duly marked by the Secretary in such a way that all the directors, physically or electronically present, can easily follow, refer to the documents, and participate in the meeting.

2.2.4.3 If a director chooses to attend the meeting via teleconferencing or videoconferencing, he shall give notice of at least two (2) days prior to the scheduled meeting to the Secretary. This notice requirement may be waived, either expressly or impliedly. The Secretary shall be informed of the concerned director's contact details necessary to allow teleconferencing or videoconferencing. In the same way, the Secretary shall inform the director concerned of the contact details he will call or connect to to join the meeting. The Secretary shall keep the records of the details, and on the date of the scheduled meeting, confirm and note such details as part of the minutes of the meeting. In the absence of arrangements made pursuant to the Corporation's by-laws, it is presumed that the director will physically attend the scheduled meeting of the Board of Directors.

2.2.4.4 At the start of the scheduled meeting, a roll call shall be made by the Secretary of the meeting. Every director and participant shall state, for the record, the following:

- Full Name;
- Location;
- For those attending through teleconferencing or videoconferencing, he shall:
  - confirm that he can completely and clearly hear the others who can clearly hear him at the end of the line;
  - state whether he has received the agenda and all the materials for the meeting; and
  - specify the type of electronic or telecommunications device being used at his end.

- Thereafter, the Secretary of the meeting shall confirm and note the contact details being used by the directors and participants not physically present. After the roll call, the Secretary of the meeting may certify the existence of a quorum.

2.2.4.5 During the course of the meeting where attendance is made through teleconferencing or videoconferencing, all participants shall identify themselves for the record before speaking and must clearly hear and/or see each other in the course of the meeting. If a person fails to identify himself, the Secretary of the meeting shall quickly state the identity of the last speaker.

If the person speaking is not physically present and the Secretary of the meeting is not certain of the identity of the speaker, the Secretary of the meeting must inquire to elicit a confirmation or correction.

If a motion is objected to and there is a need to vote and divide the Board, the Secretary of the meeting shall call the roll and note the vote of each Director who should identify himself/herself.

If a statement of a director or participant who is attending the meeting via teleconferencing or videoconferencing is interrupted or garbled, the Secretary of the meeting shall request for a repeat or reiteration, and if need be, the Secretary of the meeting shall repeat what he heard the Director or participant was saying for confirmation or correction.

The Secretary shall require all the Directors who attended the meeting, whether personally or through teleconferencing or videoconferencing, to sign the minutes of the meeting to dispel all doubts on matters taken up during the meeting.

## 2.2.5 The Corporate Secretary

2.2.5.1 The Corporate Secretary is an officer of the Corporation and shall perform his functions in accordance with the principles enunciated in this Manual and all applicable laws. Likewise, his loyalty to the mission, vision, and specific business objectives of the Corporation comes with duties.

2.2.5.2 The Corporate Secretary shall be a Filipino citizen and a resident of the Philippines. He shall be a separate individual from the Chief Compliance Officer. The Corporate Secretary shall not be a member of the Board of Directors and shall annually attend a training on corporate governance.

2.2.5.3 The Corporate Secretary is primarily responsible to the Corporation and its stockholders, and not to the Chairman or President of the Corporation. Considering his varied functions and duties, he must possess the appropriate competence and skills necessary for him to fulfill the following duties and responsibilities:

- a. Assist 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. Oversee the conduct of an evaluation after each annual meeting of the stockholders and organizational or regular meeting of the Board of Directors of the Corporation to discuss the results of the meeting and to develop action plans to address identified areas for improvement;
- c. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Corporation;
- d. Keep 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;
- e. Be loyal to the mission, vision and objectives of the Corporation;
- f. Work fairly and objectively with the Board, Management, stockholders and other stakeholders and contribute to the flow of information between the Board and Management, the Board and its committees, and the Board and its stakeholders, including stockholders;
- g. Advise on the establishment of board committees and their terms of reference;
- h. Have appropriate administrative and interpersonal skills;
- i. Have a working knowledge of the operations of the Corporation;
- j. Inform the members of the Board of the agenda of their meetings at least five (5) working days in advance, and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on the matters that require their approval;
- k. Attend all board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accident, prevent him from doing so;
- l. Perform required administrative functions;
- m. Oversee the drafting of the amendments to the by-laws of the Corporation and ensures that they conform with regulatory requirements;
- n. Ensure that all Board procedures, rules and regulations are strictly followed by the members;

- o. Assist the Chief Compliance Officer in the performance of his functions under this Manual, including close coordination with the Chief Compliance Officer in monitoring and facilitation of the Corporation's compliance with all rules, laws, regulations and company policies that would have an impact to the Corporation's objectives; and
- p. Perform such other duties and responsibilities as may be provided by the SEC.

## **2.2.6 Enhancing Accountability and Strengthening the External Auditor's Independence and Improving Audit Quality**

2.2.6.1 The Board is primarily accountable to the stockholders. It shall provide them a balanced and comprehensible assessment of the Corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could diversely affect its business, as well as reports to the regulators that are required by law. Management shall 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 shall formulate, under the supervision of the Board Audit and Risk Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- a. The extent of its responsibilities in the preparation of the financial statements of the Corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, shall be clearly explained;
- b. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation for the benefit of all the stockholders and other stockholders shall be maintained;
- c. On the basis of the approved audit plans, internal audit examinations shall cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information system, including the reliability and integrity of operation information, effectiveness and efficiency of operation, protections of assets, and compliance with contracts, laws, rules and regulations;
- d. The Corporation shall consistently comply with the financial reporting requirements of the SEC; and
- e. The External Auditor shall be rotated or changed every five (5) yeas or earlier, or the signing partner of the external auditors' firm assigned to the Corporation, shall be changed with the same frequency.

2.2.6.2 The Board, after consultations with the Board Audit and Risk Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

2.2.6.3 The Board Audit and Risk 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 Board Audit and Risk Committee, approved by the Board and ratified by the stockholders.

2.2.6.4 The reason/s for the resignation, dismissal, or cessation from the service of an external auditor, and the date thereof, shall be reported in the Corporation's annual and current reports and disclosed to the regulators and the public through the website of the Corporation and required disclosure. Said reports 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 which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Corporation to the external auditor before its submission.

The Board Audit and Risk Committee Charter should include the Board Audit and Risk Committee's responsibility on assessing the integrity and independence of the external auditor 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 should also contain the Board Audit and Risk Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

2.2.6.5 The Board Audit and Risk Committee shall disclose the nature of the nonaudit services performed by its external auditor in the Annual report to deal with the potential conflict of interest. The Board Audit and Risk 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.

2.2.6.6 The external auditor of the Corporation shall not at the same time provide the services of an internal auditor to the Corporation. The Corporation shall ensure that the other non-audit work shall not be in conflict with the functions of the external auditor, provided it does not conflict with his/its duties as an independent auditor, or does not pose a threat to his/its independence.

2.2.6.7 If an external auditor believes that the statements made in the Corporation's annual report, information statement, or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

## **2.2.7 Internal Auditor**

2.2.7.1. The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

The Corporation shall have in place an independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with.

He shall submit to the Board Audit and Risk 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 Board Audit and Risk Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

- 2.2.7.3. The minimum internal control mechanisms for Management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.
- 2.2.7.4. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

## **2.2.8 Assessing Board Performance**

- 2.2.8.1 The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment shall be supported by an external facilitator.
- 2.2.8.2 The Board Shall have in place a system that provides, at the minimum, criteria and processes to determine the performance of the Board, the individual directors, committees and such system shall allow for a feedback mechanism from the shareholders.
- 2.2.8.3 The self-assessments focus on individual director performance as well as the collective performance of the Board and its Committees, operating as a whole and are built around the Board Charter and Committee Charters. Key evaluation factors of the assessments include: the functions of the Board, Board strategy and effectiveness, Board structure and committees, Chairman's, Committee's and peer director's performance.
- 2.2.8.4 The results of these evaluations shall be presented to the CG Committee which will then report on all these assessments to the Board. The CG Committee may develop recommendations and/or an action plan for the Board, where determined necessary or desirable, to address issues raised as a result of such assessments, and will monitor the progress of the Board in addressing issues identified in the assessment process.

of the performance evaluation is to highlight the strengths of the Corporation's corporate governance system where such improvement initiatives can be focused upon in targeted communications to strengthen shareholder and stakeholder confidence.

2.2.8.5 There are three (3) major levels to the evaluation:

- a. Board-level Assessment of the body as a whole The Board of Directors needs to assess its own achievement of goals and working style, i.e., actual operations and work of the Board with respect to the Corporation's business model and strategy. Directors will also review board effectiveness with respect to current and future development challenges of the Corporation, the continuous evolving expectations of its stakeholders and, if need be, existing communication on corporate governance matters.
- b. Committee-level Assessment of respective Board Committees All board-level committees shall evaluate annually the performance of the committee as a body and report the results to the Board or to such committee that may be appointed by the Board for review.
- c. Individual Director Self-Assessment

### **2.2.9 Strengthening Board Ethics**

2.2.9.1 The Board shall adopt a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, 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 website of the Corporation.

2.2.9.2 The Board should ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

## **3. Communications Process**

3.1. This Manual shall be available for inspection by any stockholder of the Corporation 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 the HR Department, with a minimum of at least one (1) hard copy of the Manual per department.

#### 4. Training Process

- 4.1 If necessary, funds shall be allocated by the Vice President for Finance for the purpose of conducting an orientation program or workshop to operationalize this Manual.
- 4.2 A director shall, before assuming as such, be required to attend a seminar on corporate governance, which shall be conducted by a duly recognized private or government institute, if such seminar is available or to be conducted otherwise within a reasonable time after assuming such position.
- 4.3 The Corporation shall provide trainings for directors, including an orientation program for first-time directors and relevant annual continuing training for all directors. The orientation program for first-time directors shall be for at least eight (8) hours, while the annual continuing training shall be for at least four (4) hours.
- 4.4 All first-time directors shall be properly oriented upon joining the board. This ensures that new members are appropriately apprised of their duties and responsibilities, before beginning their directorships. The orientation program covers SEC-mandated topics on corporate governance and an introduction to the Corporation's business, Articles of Incorporation, and Code of Conduct. It should be able to meet the specific needs of the Corporation and the individual directors and aid any new director in effectively performing his functions.
- 4.5 The annual continuing training program, on the other hand, shall make certain that the directors are continuously informed of the developments in the business and regulatory environments, including emerging risks relevant to the Corporation. It involves courses on corporate governance matters relevant to the Corporation, including audit, internal controls, risk management, sustainability and strategy. The Corporation shall assess its own training and development needs in determining the coverage of their continuing training program.
- 4.6 Following appointment to the Board, new Directors shall receive a comprehensive induction tailored to their individual needs. This includes a visit to the key facilities (e.g. refinery, terminal, service station) and presentations by and meetings with senior management to enable them to build up a detailed understanding of the Corporation's business and strategy, and the key risks and issues faced as well as participation at relevant corporate governance learning events.

#### 5. Enhancing the reportorial and disclosure system, policies and procedures of company's corporate governance policies

All material information about the Corporation which could adversely affect its viability or the interest of the stockholders and other stakeholders shall be publicly and timely disclosed. Such information should include, among others, earning result, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

- 5.1. The Corporation shall also disclose in its website a copy of its Code of Business Conduct and Ethics and a copy of this Manual. The Corporation shall likewise make available in its website (i) a copy of the minutes of the Annual and Special Shareholder's Meetings within five (5) business days from end of meeting, and (ii) the result of the votes taken during the most recent Annual or Special Shareholders' Meeting within the next working day.
- 5.2 The Corporation shall establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to stockholders and other stakeholders that gives a fair and complete picture of the Corporation's financial condition, results and business operations.
- 5.3 The reports or disclosures required under this Manual shall be prepared and submitted to the SEC by the responsible Committee or officer through the Corporation's Chief Compliance Officer.
- 5.4 The Corporation shall require all directors and officers to disclose or report to the Corporation any intended dealings in the shares of the Corporation prior to the said intended dealings taking into account the procedure outlined in the Securities Dealing Code of the Corporation.
- 5.6 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.
- 5.7 The Corporation shall provide clear disclosure policies and procedures for setting Board and executive remuneration, as well as the level and mix of the same in its Annual Corporate Governance Report. The Corporation shall also disclose the remuneration on an individual or lump-sum basis, including termination and retirement provisions.
- 5.8 The Corporation shall make 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 of the interest of its stockholders and other stakeholders. Moreover, the Board of the offeree company shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.
- 5.9 The Corporation shall disclose its policies governing RPTs and other unusual or infrequently occurring transactions in this Manual. The material or significant RPTs reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report.
- 5.10 The Corporation shall submit this Manual, which contains its corporate governance policies, programs and procedures, to the regulators and shall post the same on its website.

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- 5.10 The Corporation shall submit this Manual, which contains its corporate governance policies, programs and procedures, to the regulators and shall post the same on its website.

## 6. Increasing focus on non-financial and sustainability reporting

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. The Corporation shall adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

## 7. Promoting a comprehensive and cost-efficient access to relevant information

The Corporation 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.

## 8. Strengthening the internal control system and ERM framework

8.1 The Corporation shall have an adequate and effective internal control system and an ERM framework in the conduct of its business, taking into account its size, risk profile, and complexity of operations.

8.2 The Corporation 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.

8.3 The following are the functions of internal audit, among others:

- a. Provides an independent risk-based assurance service to the Board, Board Audit and Risk 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 Corporation’s risk assessment;
- c. Performs consulting and advisory services related to governance and control as appropriate for the organization;
- d. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Corporation;
- e. 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;

- f. Evaluates specific operations at the request of the Board or Management, as appropriate; and
  - g. Monitors and evaluates governance process.
- 8.4 The Corporation shall have a qualified Chief Audit Executive (“CAE”) appointed by the Board. The CAE 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.
- 8.5 The CAE, in order to achieve the necessary independence to fulfill his responsibilities, directly reports functionally to the Board Audit and Risk Committee and administratively to the CEO. The following are the functions of the CAE, among others:
  - a. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit and Risk 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, resources requirements and impact of resources limitations, as well as significant interim changes, to senior management and the Board Audit and Risk 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 Board Audit and Risk Committee on the internal audit activity’s performance relative to its plan; and
  - f. Presents findings and recommendations to the Board Audit and Risk Committee and gives advice to senior management and the Board on how to improve internal processes.
- 8.6 The Corporation shall have a 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 EESG factors and the achievement of the organization’s strategic objectives;
  - c. Evaluating and categorizing each identified risk using the Corporation’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 Corporation, 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 Audit and Risk Committee; and
- g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

8.7 In managing the Risk Management System of the Corporation, the Corporation shall have a Chief Risk Officer ("CRO"), who is the ultimate champion of ERM and has adequate authority, stature, resources and support to fulfill his responsibilities, subject to the Corporation's size, risk profile and complexity of operations. 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 documentations;
- b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Audit and Risk Committee;
- c. Collaborates with the CEO in updating and making recommendations to the Board Audit and Risk 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 a clear communication between the Board Audit and Risk Committee and the CRO.

## 9. Shareholder's Benefit

The Corporation 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 a governance covenant between the Corporation and all its investors:

## 9.1. Rights of Investors/Minority Interests

The Board shall be committed to respect the following rights of the stockholders:

### 9.1.1 Voting Right

9.1.1.1 Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

Any stockholder, whether majority or minority, has the right to nominate candidates for seats in the Board of Directors who possess all the qualifications and none of the disqualification of Directors as prescribed herein and other applicable laws, rules and regulations. The minority stockholders should be encouraged to nominate candidates for seats in the Board.

9.1.1.2 Cumulative voting shall be used in the election of directors.

9.1.1.3 A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

### 9.1.2 Power of Inspection

All shareholders shall be allowed to inspect corporate books and records including 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.

### 9.1.3 Right to Information

9.1.3.1 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 Corporation's shares, dealing with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers, provided that such information are to be used for purposes permissible with the bounds of law.<sup>7</sup>

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<sup>7</sup> Request for information, particularly those to the "personal" category should be subject to limitations set by law (i.e., Constitutional, Data Privacy Act and its rules and regulations, and other related rights).

#### 9.1.4 Rights to Dividends

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

#### 9.1.5 Appraisal Right

The shareholders shall have an 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:

- a. 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;
- b. 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
- c. In case of merger or consolidation.

#### 9.1.6 Nomination Process for Directors

- 9.1.6.1 Similar to the process of nomination for Independent Directors, nomination of Directors.
- 9.1.6.2 Shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.

- 9.1.6.2 The Nomination Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for Director/s.
- 9.1.6.3 After the nomination, the Nomination Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for Directors, which list shall be made available to the Commission and to all stockholders through the information statement. The name of the person or group of persons who recommended the nomination of the Director shall be identified in such report including any relationship with the nominee.
- 9.1.6.4 Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Directors. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual meeting.

## 9.2 Protecting Shareholders' Rights

- 9.2.1. The Board shall be transparent and fair in the conduct of the annual and special stockholders' meeting of the Corporation. The stockholders shall be encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws of the Corporation, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholder's favor.
- 9.2.2 The Board shall encourage active participation by sending the Notice of annual and special stockholders' meetings with sufficient and relevant information at least twenty-eight (28) days before the meeting,
- 9.2.3 It shall be the duty of the Board to promote shareholder rights, remove impediments to the exercise of shareholders' right and provide avenues to seek timely redress for breach of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective actions problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

- 9.2.4 All stockholders shall be treated equally or without discrimination. The Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.
- 9.2.5 The Board shall encourage active stockholder 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 should be available on the website of the Corporation within five (5) business days from end of the meeting. Voting results shall include a breakdown of the approving, dissenting and abstaining votes in the matters raised during the annual or special stockholders' meeting. When a substantial number

of votes have been cast against a proposal made by the company, it may make an analysis of the reasons for the same and consider having a dialogue with its shareholders. The minutes of meeting shall include the following matters: 1) a description of the voting and the vote tabulation procedures used; 2) the opportunity given to shareholders to ask questions, as well as a record of the questions and the answers received; 3) the matters discussed and the resolutions reached; 4) a record of the voting results for each agenda item; 5) a list of the directors, officers and shareholders who attended the meeting; and 6) dissenting opinion on any agenda item that is considered significant in the discussion process.

### 9.3 Investor Relations Office ("IRO")

The Board shall establish an IRO to ensure constant engagement with its stockholders. The IRO shall be present at every stockholders' meeting. The IRO ensures that all information regarding the activities of the Corporation are properly and timely communicated to shareholders. The IRO shall have a designated investor relations officer, email address, and telephone number.

## 10. Duties to stakeholders

### 10.1 Respecting Rights of Stakeholders and Effective Redress for Violation of Stakeholders Rights

- 10.1.1 The Board shall identify the various stakeholders of the Corporation and promote cooperation between them and the Corporation in creating wealth, growth and sustainability.
- 10.1.2 The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders, including supplier/contractor selection practices and customer health and safety.

- 10.1.3 The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Corporation and to obtain redress for the violation of their rights, including safeguarding of creditors' rights.
- 10.1.4 The Board shall ensure that the Corporation's value chain is environmentally friendly and consistent with promoting sustainable development.
- 10.1.5 The Board shall interact with communities in which they operate.
- 10.1.6 The Corporation adopts anti-corruption programmes and procedures.

## 10.2 Encouraging Employees' Participation

- 10.2.1 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. These shall include (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees.
- 10.2.2 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 culture of the Corporation.
- 10.1.5 The Board shall interact with communities in which they operate.
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- 10.2.3 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. The Corporation recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the Corporation to grow its business, while contributing to the advancement of the society where it operates.

## 11. Monitoring and Assessment

- 11.1. Each Committee shall report regularly to the Board of Directors, as the latter shall deem appropriate.
- 11.2. The Chief 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 12 of this Manual.
- 11.3. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Corporation's annual report (SEC Form 17-A) or in such form of report that is applicable to the Corporation. The adoption of such performance evaluation system must be covered by a Board approval.
- 11.4. This Manual shall be subject to yearly review unless the same frequency is amended by the Board.
- 11.5. All business process and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to the extent compliant.

## 12. Penalties for non-compliance with the manual

- 12.1. To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provisions of this Manual:
- a. In case of first violation, the subject person shall be reprimanded.

- b. Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
  - c. For the third violation, the maximum penalty of removal from office shall be imposed.
- 12.2. The commission of a third violation of this Manual by any member of the Board of the Corporation or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
- 12.3. The Chief 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.

Date signed: 31 May 2017

Signed in the original

*JANNET C. REGALADO*  
*Compliance Officer*

*ASADA HARINSUIT*  
*Chairman of the Board*

