

# PANASONIC MANUFACTURING PHILIPPINES CORPORATION (PMPC)

## MANUAL ON CORPORATE GOVERNANCE

Good corporate governance practice is an important ingredient in creating and sustaining shareholder value and ensuring integrity and ethical, legal and transparent behaviour.

This Corporate Governance Manual, along with the PMPC's By-laws, the Board Committee Charters and the Code of Conduct, provide the framework for the governance of Panasonic Manufacturing Philippines Corporation ("the Company"). This Manual has been approved by PMPC Board to apply to PMPC and its subsidiary.

PMPC is presently a publicly listed company. As such, there is an obligation to comply with the SEC's implementing rules and regulations particularly the Code on Corporate Governance ("the Code"). All relevant provisions of the Code have been adopted in this Corporate Governance Manual.

The practices set out in this document are reviewed regularly by the Compliance Officer and the Audit Committee. They may, from time to time, be amended to ensure that PMPC continues to act in accordance with appropriate corporate governance best practices.

### Article I

#### Definition of Terms

- a) **Corporate Governance** – the framework of rules, system and processes in the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to [stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.](#)
- b) **Board of Directors** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
- c) **Exchange** – an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities;
- d) **Management** – the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation;
- e) **Independent director** – 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;

- f) *Executive director*** – a director who is also the head of a department or unit of the corporation or performs any work related to its operation;
- g) *Non-executive director*** – a director who is not the head of a department or unit of the corporation nor performs any work related to its operations;
- h) *Non-audit work*** – the other services offered by an external auditor to a corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;
- i) *Internal control*** – the system established by the Board of Directors and Management for the accomplishment of the corporation’s objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules;
- j) *Internal control system*** – the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the corporation is exposed;
- k) *Internal audit*** – an independent and objective assurance activity designed to add value to and improve the corporation’s operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;
- l) *Internal audit department*** – a department or unit of the corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the corporation’s operations;
- m) *Internal Auditor*** – the highest position in the corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

## **Article II**

### **Board Governance**

The Board of Directors (the “Board”) is primarily responsible for the governance of the Company. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management.

**A) Composition of the Board**

The Board shall be composed of at least five (5), but not more than fifteen (15), members who are elected by the stockholders.

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

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

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

**B) Multiple Board Seats**

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

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

**C) The Chair and Chief Executive Officer**

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

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

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

- (i) Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;

- (ii) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestion of the CEO, Management and the directors; and
- (iii) Maintain qualitative and timely lines of communication and information between the Board and Management

**D) Qualification of Directors**

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

- (i) College education or equivalent academic degree;
- (ii) Practical understanding of the business of the corporation
- (iii) Membership in good standing in relevant industry, business or professional organizations; and
- (iv) Previous business experience.

**E) Disqualification of Directors**

**1. Permanent Disqualification**

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

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

The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission 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;

- (iii) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- (iv) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have wilfully violated, or wilfully aided, abetted, counselled, induced or produced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;
- (v) Any person earlier elected as independent director who becomes an officer, Employee or consultant of the same corporation;
- (vi) Any person judicially declared as insolvent;
- (vii) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (i) to (v) above;
- (viii) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

## **2. Temporary Disqualification**

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

- (i) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementation Rules and regulations. The disqualification shall be in effect as long as the refusal persists.

- (ii) Absence in more than fifty (50) percent 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 serious accident. The disqualification shall apply for purposes of the succeeding election.
- (iii) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.
- (iv) If the beneficial equity ownership of an independent director in the corporation of its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.
- (v) If any of the judgment or orders cited in the grounds for permanent disqualification has not yet become final.

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

## F) Responsibilities, Duties and Functions of the Board

### 1. General Responsibilities

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 the best interest of *its stockholders and other stakeholders*.

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

### 2. Duties and Functions

To ensure a high standard of best practice for the Company, *its stockholders and other stakeholders*, the Board should 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. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for Management.

- b) 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 the business plans, operating budgets and Management's overall performance.
- c) Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
- d) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Company. If feasible, the Company's CEO or chief financial officer shall exercise oversight responsibility over this program.
- e) Identify [the corporation's stakeholders](#) in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- f) Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness.
- g) 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 operational and financial viability.
- h) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions 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 relationships by members of the Board.
- i) Constitute an Audit Committee and such other committee it deems necessary to assist the Board in the 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 the regulatory authorities.

- k) Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
- l) Keep the activities and decision of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations
- m) Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

#### **G) Specific Duties and Responsibilities of a Director**

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

A director should observe the following norms of conduct:

- (i) Conduct fair business transactions with the Company, and ensure that his personal interest does not conflict with the interests of the Company.
- (ii) Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.
- (iii) Act judiciously.
- (iv) Exercise independent judgment.
- (v) Have a working knowledge of the statutory and regulatory requirements that affect the Company, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies.
- (vi) Observe confidentiality.

#### **H) Internal Control Responsibilities of the Board**

The control environment of the corporation consists of (a) the Board which ensures that the Company is properly and effectively managed and supervised; (b) a Management that actively manages and operates the Company in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management reporting systems; and (d) an independent audit mechanism to monitor the adequacy and effectiveness of the Company's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules and contracts.



- (i) The minimum internal control mechanisms for the performance of the Board's oversight responsibility include:
  - a) Definition of the duties and responsibilities of the CEO who is ultimately accountable for the Company's organizational and operational control;
  - b) Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
  - c) Evaluation of proposed senior management appointments;
  - d) Selection and appointment of qualified and competent management officers; and
  - e) Review of the Company's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan.
- (ii) The scope and particulars of the systems of effective organizational and operational controls may differ among corporations depending on, among others, the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.
- (iii) A corporation shall establish an internal audit system that can reasonably assure the Board, Management and stockholders that its key organizational and operational controls are faithfully complied with. The Board shall appoint an Internal Auditor to perform the audit function, and require him to report to a level in the organization that allows the internal audit activity to fulfil its mandate. The Internal Auditor shall be guided by the International Standards on Professional Practice of Internal Auditing.

**l) Board Meetings and Quorum Requirement**

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

Independent directors should always attend Board meetings. Unless otherwise provided in the by-laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one independent director in all its meetings.

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

#### **J) Remuneration of Directors and Officers**

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

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

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

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

#### **K) Board Committees**

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

##### **Audit Committee**

(i) The Audit Committee shall consist of at least (3) directors, who shall preferably have accounting and finance backgrounds, one of whom shall be an independent director and another with audit experience. The chair of the Audit Committee should be an independent director. The committee shall have the following functions:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;

- b) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
- c) Perform oversight function over the Company's internal and external auditors. It should 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) Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it;
- e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- f) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal;
- g) Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors;
- i) Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Major judgmental areas
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements.
- j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual

income of the external auditor and to the Company's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the corporation's annual report;

- l) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfil his duties and responsibilities. He shall functionally report directly to the Audit Committee.

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

For Philippine branches or subsidiaries of foreign corporations covered by this Code, their Internal Auditor should be independent of the Philippine operations and should report to the regional or corporate headquarters.

- (ii) The Board may also organize the following committees:

#### **Nomination Committee**

A nomination Committee, which may be composed of at least three (3) members and one of whom should be an independent director, to review and evaluate the qualification of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;

#### **Compensation or Remuneration Committee**

A compensation or Remuneration Committee, which may be composed of at least three (3) members and one of whom should be an independent director, to establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.

### **L) The Compliance Officer**

The Board shall appoint a Compliance Officer who shall report directly to the Chair of the Board. He shall perform the following duties:

- (i) Monitor compliance by the Company with this Code and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary

- action on the responsibility parties and the adoption of measures to prevent a repetition of the violation;
- (ii) Appear before the Commission when summoned in relation to compliance with this Code; and
- (iii) Issue a certification every January 30<sup>th</sup> of the year on the extent of the Company's compliance with this Code for the completed year and, if there are any deviations, explain the reason for such deviation.

### **Article III**

#### **Management**

##### **1. General Responsibilities of Management**

- a. Management stands as the locus of decision making for the day-to-day affairs of the Company. It determines the Company's activities by putting the Company's targets in concrete terms and by formulating the basic strategies for achieving these targets. It also puts in place the infrastructure for the Company's success by establishing the following mechanism in its organization; i) purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Company; ii) useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach; iii) information systems that are defined and aligned with IT strategy and business goals of the Company; iv) a plan of succession that formalizes the process of identifying, training and selection of successes in key positions in the Company.
- b. Management is primarily accountable to the Board for operations of the Company. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the operations and affairs of the Company in a timely manner.

##### **2. Executive Officers of the Company**

The Executive Officers of the Company are the President / CEO, the Vice-President, Executive Directors, and the Corporate Secretary. The Executive Officers shall be appointed by the Board of Directors. In Addition:

###### **a.) President / CEO**

Minimum internal control mechanism for management's operational responsibility shall center on the President/ CEO being ultimately accountable for the Company's organizational and procedural controls. In addition to the duties imposed on the President/CEO by the Board of Directors, the President shall

- i.) Have general supervision of the business, affairs, and property of the Company, and over its employees and officers;
- ii.) See that all orders and resolutions of the Board of Directors are carried into effect;

- iii. ) Submit to the Board as soon as possible after the close of each fiscal year and to the stockholders at the annual meeting, a complete report of the operations of the Company for the preceding year, and the state of its affairs;
- iv. ) Report to the Board from time to time all matters within its knowledge which the interest of the Company may require to be brought to their notice.
- v. ) The President / CEO shall have such other responsibilities as the Board of Directors may impose upon him.

**b.) The Treasurer**

The treasurer of the Company shall have charge of the funds, securities, receipt and disbursement of the Company. He shall have the following functions:

- i. ) Deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Company in such banks or trust companies or with such bankers or other depositories as the Board may from time to time designate;
- ii. ) Regularly and at least every quarter render to the President or to the Board an account of the fund condition of the Company and of all his transactions as such;
- iii. ) Ensure funds available on a timely basis and at the most economical means;
- iv. ) Optimize yields in temporary excess funds;
- v. ) Provide relevant and timely capital market information;
- vi. ) Ensure appropriate coverage and management of risk to resources.

The treasurer shall have such other responsibilities as the Board of Directors may impose upon him.

**c.) The Corporate Secretary**

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the corporation. He should –

- (i) Be responsible for the safekeeping and preservation of the integrity of the Minutes of the meetings of the Board and its committees, as well as the other official records of the Company;
- (ii) Be loyal to the mission, vision and objectives of the corporation;
- (iii) Work fairly and objectively with the Board, Management and stockholders and other stakeholders;
- (iv) Have appropriate administrative and interpersonal skills;
- (v) If he is not at the same time the corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- (vi) Have a working knowledge of the operations of the Company;
- (vii) Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

- (viii) Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
- (ix) Ensure that all Board procedures, rules and regulations are strictly followed by the members; and
- (x) If he is also Compliance Officer, perform all the duties and responsibilities of the said officer as provided for this Code.

#### **Article IV**

##### **Conflict of Interest**

The personal interest of directors and officers shall never prevail over the interest of the Company. They are required to be loyal to the organization so much so that they may not directly or indirectly derive any personal profit or advantage by reason of their position in the Company. They must promote the common interest of all shareholders and the Company without regard to their own personal and selfish interest.

- a. ) A conflict of interest exist when a director or an officer of the Company -
  - (i) Supplies or is attempting or applying to supply goods or services to the Company;
  - (ii) Supplies or is attempting to supply goods or services or information to an entity in competition with the Company;
  - (iii) By virtue of his office, acquires or is attempting to acquire to himself a business opportunity which should belong to the Company;
  - (iv) Is offered or receives consideration for delivering the Company's business to a third party;
  - (v) Is engaged or attempting to engage in a business or activity which competes with or works contrary to the best interest of the Company.
- b. ) If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed and the concerned director should not participate in the decision making. A director who has a continuing conflict of interest of a material in nature should either resign or, if the Board deems appropriate, be removed from the Board.
- c. ) A contract of the Company with one or more of its directors or officers is voidable, at the option of the Company, unless all of the following conditions are present:
  - (i) The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
  - (ii) The vote of such director was not necessary for the approval of the contract;
  - (iii) The contract is fair and reasonable under the circumstances;
  - (iv) In case of an officer, the contract has been previously approved by the Board of Directors.

Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director, such contract may be ratified by the vote of stockholders representing two-thirds (2/3) of the outstanding capital stock in a meeting called for that purpose; provided that full disclosure of the adverse interest

of the director is made at such meeting; and provided further that the contract is fair and reasonable under the circumstances.

- d. ) Where a director, by virtue of his office, acquires for himself a business opportunity which should belong to the Company, thereby obtaining profits to the prejudice of the Company, the director must account to the latter for all such profit by refunding the same, unless his act has been ratified by a vote of the stockholders owning or representing at least two-third (2/3) of the outstanding capital stock. This provision shall be applicable notwithstanding the fact that the director risked his own fund in the venture.
- e. ) The foregoing is without prejudice to the Company's existing Code of Conduct and Ethics for its officers, employees and staff.

## **Article V**

### **Related Party Transaction**

The Company shall avoid related party transactions. In instances where related party transactions cannot be avoided, the Company shall disclose all relevant information on the same, including information on the affiliated parties and the affiliation of directors and principal officers. The disclosure shall be in accordance with the Philippine Financial Reporting Standards (PFRS) and SEC's implementing rules and regulations.

## **Article VI**

### **COMMUNICATION AND INFORMATION**

#### **Management Responsibility for Information**

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

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

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

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



## **The Investor Relations Function**

There shall be an Investor Relations Division within the Company, which shall be tasked with—

- i. ) Creation and implementation of an investor relation program reaches out to all shareholders and fully informs them of corporate activities;
- ii. ) Formulation of a clear policy on communicating or relating relevant information to Company stakeholders and to the broader investor community accurately, effectively and sufficiently;
- iii. ) Preparation of disclosure documents to the SEC and the Philippine Stock Exchange; and
- iv. ) Dissemination of this Manual, and the Conduct of an orientation program for the Board and Management.

The Investor Relation Division shall report to the Chief Financial Officer who shall oversee all reporting and disclosures to the SEC and PSE.

## **Communication of This Manual**

This Manual shall be submitted to and made available at the SEC. It shall also be available for inspection by any stockholder of the Company at its principal office during reasonable hours on a business day.

All directors, executives and officers of the Company are required to ensure complete dissemination of this Manual to all employees and enjoin compliance in the process. If necessary, funds shall be allocated for orientation programs or workshops to implement this Manual.

## **Article VII**

### **Accountability and Audit**

- A. The Board is primarily accountable to the stockholders. It should provide them with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect its business, as well reports that are required by law.

Thus, it is essential that Management provide all members of the Board with accurately and timely information that would enable the Board to comply with its responsibilities to the stockholders.

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

- (i) The extent of its responsibilities in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;

- (ii) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders;
  - (iii) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
  - (iv) The Company should consistently comply with the financial reporting requirements of the Commission;
  - (v) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Company, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures; control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
- B. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the Company, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of affectivity of such action shall be reported in the Company's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.

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

## Article VIII

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

- A) The Board shall respect the rights of its stockholders and other stakeholders, as provided for in the Corporation Code; namely:
- (i) Right to vote on all matters that require their consent or approval;
  - (ii) Pre-emptive right to all stock issuances of the corporation;
  - (iii) Right to inspect corporate books and records;
  - (iv) Right to information;
  - (v) Right to dividends; and
  - (vi) Appraisal right.
- B) The Board should be transparent and fair in the conduct of the annual and special stockholders meetings of the Company. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favour.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurately and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

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

## **Article IX**

### **Governance Self-Rating System and Training**

#### **Self Rating System**

The Board shall create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in this Code. This shall be annually conducted and facilitated by Compliance Officer and Audit Committee, which shall discuss the results thereof at a Board meeting. Independent consultants may also be invited the Compliance Officer and the Audit Committee in this process.

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

#### **Training**

The Company shall provide a comprehensive orientation program for new directors, including an understanding of the contribution that the Director is expected to make, an explanation of the Board and its committees, and an explanation of the Company's business, including Corporate Governance and other issues that will assist them in discharging their duties.

The Company shall also provide general access to training courses to its directors as a matter of continuous professional education as well as to maintain and enhance their skills as directors, and keep them updated in their knowledge and understanding of the Company's business. The Board Committees may also hire independent legal counsel, accounting or other consultants to advise them when necessary.

## **Article X**

### **Disclosure and Transparency**

It is therefore essential that all material information about the corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

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

## **Article XI**

### **Regular Review of the Code and the Scorecard**

Annually, the Company shall accomplish a scorecard to determine the extent of its compliance on the scope, nature and extent of the actions it has taken to meet the objectives of the Code pursuant to SEC's requirement. The Company's shall submit the scorecard together with the supporting documents to the SEC.

The Compliance officer and the Audit Committee shall periodically review the provisions and enforcement of Company's Manual on Corporate Governance, unless otherwise stated by the Board.

All business processes and practices being performed within any department or business unit of the Company shall be revoked unless upgraded to the compliant state.

This manual is subject to review and amendment to continuously improve the Company's corporate governance practices by assessing their effectiveness and comparing them with evolving best practices, standards identified by leading governance authorities and the Company's changing circumstances and needs.

## **Article XII**

### **Penalties for Non-Compliance with the Manual**

To strictly observe and implement the provision of this manual, the following penalties shall imposed, after notice and hearing, on the company's directors, officers, staff in case of any of the provision of this manual:

- i. ) In case of first violation, the subject person shall be reprimanded.
- ii. ) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
- iii. ) For third violation, the maximum penalty of removal from office shall be imposed.

The commission of a third violation of this manual by any member of the board of the Company or its subsidiaries and affiliates shall be sufficient cause for removal from directorship.

The compliance officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

**Article XIII**

**Effective Date**

The Manual on Corporate Governance was first adopted by the Board of Directors of the Company on September 2, 2002 and was revised on December 30, 2009 and July 31, 2014. It shall be effective immediately upon signing hereof.

**Manual Read and Approved by:**



**NOBUO YASUHIRA**  
PMPC President



**EVANGELISTA C. CUENCO**  
Chairman, Audit Committee/Independent  
Director



**ATTY. MAMERTO MONDRAGON**  
Corporate Secretary / Compliance Office

Date of Signing: July 30, 2014