

**PXP ENERGY CORPORATION**  
*(formerly Philex Petroleum Corporation)*

**REVISED MANUAL ON CORPORATE GOVERNANCE**

The Board of Directors of PXP Energy Corporation (“PXP” or the “Company”) approved and adopted the Company’s Manual on Corporate Governance on 25 May 2011 and revised said Manual on 24 July 2014 in compliance with Securities and Exchange Commission (SEC) Memorandum Circular No. 9, Series of 2014<sup>1</sup>. On May 30, 2017, the Board approved and adopted the further revision of the Revised Manual on Corporate Governance<sup>2</sup> (“RMCG”) substantially adopting the SEC-issued Code of Corporate Governance for Publicly-Listed Companies (“Corporate Governance Code”).

The structures and processes set forth in this RMCG, the Articles of Incorporation and By-Laws, in conjunction with the Company’s commitment to the corporate governance principles of transparency, accountability, fairness and integrity, the various corporate governance policies adopted by the Board<sup>3</sup>, and the revised Charters of the different Committees<sup>4</sup> form the Company’s basic framework of governance by which its Board, officers, executives and employees shall strive to achieve the Company’s strategic objectives, create value for all its shareholders and sustain its long-term viability.

This RMCG shall apply suppletorily to the Company’s Articles of Incorporation, as amended, Corporate By-Laws, the Securities Regulation Code, and the Corporation Code of the Philippines but shall, in no way, supersede the same.

### **Our Vision**

Our vision is to be a highly respected world-class Philippine energy resource company committed to delivering excellent value to its investors, employees and other stakeholders.

### **Our Mission**

We are a responsible Philippine energy resource company that explores and develops petroleum and coal resources for the benefit of society.

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<sup>1</sup> Issued on 06 May 2014.

<sup>2</sup> This Manual supersedes the Revised Manual on Corporate Governance that was approved and adopted by the Company on 24 July 2014.

<sup>3</sup> Such policies include the Code of Business Conduct and the policies on Conflict of Interest, Whistle-blowing, Supplier Relations, Gifts, Entertainment and Sponsored Travel, Related Party Transactions, and the Amended Policy on Dealings in Company Shares of Stock, Directors and Officers' Orientation and Training Policy and Board Performance Appraisal/ Assessment Policy which are all available on the Company's website.

<sup>4</sup> Audit Committee, Board Risk and Resource Oversight Committee, Corporate Governance and Related Party Transaction Committee, Nominations Committee, Compensation Committee, Finance Committee

## Definitions and Interpretation

### Defined Terms

The following terms are used in this RMCG with the respective meanings ascribed to such terms below, unless the context otherwise requires:

<b>“Articles of Incorporation”</b>	means the Articles of Incorporation of the Company and all amendments thereto;
<b>“Board of Directors”</b>	means the governing body annually elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties;
<b>“Board Committees”</b>	means the Audit Committee, Board Risk <u>and Resource</u> Oversight Committee, Nominations Committee, Compensation Committee, Finance Committee, Corporate Governance <u>and Related Party Transaction</u> Committee, and such other committees which the Board may constitute from time to time;
<b>“BSP”</b>	means the Bangko Sentral ng Pilipinas;
<b>“By-Laws”</b>	means the By-Laws of the Company and all amendments thereto;
<b>“CEO”/ “President”</b>	means the President, who is the chief executive officer of the Company;
<b>“Corporate Governance Code”</b>	refers to the Code of Corporate Governance for Publicly-Listed Companies per SEC Memo Circular No. 29, Series of 2016;
<b>“Chairperson”</b>	means the Chairperson of the Board;
<b>“Commission”</b>	means the Philippine Securities and Exchange Commission;
<b>“Company” or “PXP”</b>	means PXP Energy Corporation;
<b>“Corporate Governance”</b>	<p>means the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligation towards their stakeholders.</p> <p>It is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Management accountable for</p>

ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value.

Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation;

**“Corporation Code”**

means Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines;

**“Director”**

means a duly elected member of the Board;

**“Employees”**

means employees of the Company below the rank of Manager;

**“Enterprise Risk Management”**

a process, effected by the Board, Management and other personnel, applied in strategy setting and across the Company that is designed to identify potential events that may affect it, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of its objectives;

**“Exchange”**

means the Philippine Stock Exchange;

**“Executives”**

means the executives of the Company with the rank of Manager up to the Assistant Vice President;

**“Executive Director”**

a director who has executive responsibility of day-to-day operations of a part or the whole of the Company;

**“Independent Director”**

a person who is independent of management and the controlling shareholder, and is 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;

**“Internal Control”**

a process designed and effected by the Board, Officers, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations, reliable, complete and timely financial and management information, and compliance with applicable

laws, regulations, and the organization's policies and procedures;

**“Management”**

a group of executives and senior officers given the authority by the Board to implement the policies the Board has laid down in the conduct of the business of the Company;

**“Non-Executive Director”**

a director who has no executive responsibility and does not perform any work related to the operations of the Company;

**“Officers”**

means those with the rank of Vice President of the Company and above;

**“Related Party”**

A related party is defined as any entity that falls under any of the following situations: a) Associate - The party is an associate of the Company b) Common control - The party is, directly or indirectly, either under common control with the Company entity or has significant or joint control over the Company. c) Family member - The party is a close family member of a person who is part of key management personnel or who controls the Company. A close family member is an individual's domestic partner and children, children of the domestic partner, and dependents of the individual or the individual's domestic partner. d) Individual control - The party is controlled or significantly influenced by a member of key management personnel or by a person who controls the Company e) Joint venture - The party is a joint venture in which the Company is a venture partner. f) Key management - The party is a member of the Company or its parent's key management personnel. g) Post-employment plan. The party is a post-employment benefit plan for the Company's employees.;

**“Related Party Transactions”**

a transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party;

<b>“RMCG”</b>	means this Revised Manual on Corporate Governance, including its Annexes, as the same may be amended from time to time;
<b>“Stakeholders”</b>	any individual, organization or society at large who can either affect and/or be affected by the Company’s strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates;
<b>“Securities Regulation Code”</b>	means Republic Act No. 8799; and,
<b>“Year”</b>	means a calendar year.

## Interpretation

- (a) Unless the context otherwise requires:
  - (i) Words in the singular include the plural, and vice versa; and,
  - (ii) Words importing any gender include all genders.
- (b) A reference to a statute or statutory provision shall be construed as a reference to the statute or provision as from time to time amended, modified, or re-enacted, any repealed statute or statutory provision which it re-enacts, and any orders, rules or regulations made under the relevant statute or statutory provision.
- (c) The headings in this Manual are inserted solely for convenience of reference and shall not limit or affect the interpretation of the provisions hereof.

## THE BOARD’S GOVERNANCE RESPONSIBILITIES

### 1. ESTABLISHING A COMPETENT BOARD

The Company should be headed by a competent, working board to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.

- 1.1 The Board shall be composed of Directors with a collective working knowledge, experience or expertise that is relevant to the Company’s industry/sector. 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.

- 1.2 The Board is composed of nine (9) members pursuant to the Company's Articles of Incorporation, a majority of whom are Non-Executive Directors, who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to ensure proper checks and balances.
- 1.3 The Company shall provide continuing training for its Directors and an orientation program for first time Directors in accordance with the Company's Board Charter and Directors' and Officers' Training Policy attached hereto as Annexes "A" and "B", respectively.
- 1.4 The Board shall strictly and faithfully observe Board diversity as embodied in the Board Diversity Policy, attached hereto as Annex "C".
- 1.5 The Board shall ensure that it is assisted in its duties by a Corporate Secretary, who shall be different from the Compliance Officer. The Corporate Secretary, as much as practicable, should not be a member of the Board and should annually attend training on corporate governance.

The Corporate Secretary is primarily responsible to the Company and its shareholders, and also to the Chairperson or CEO of the Company and has, among others, the following duties and responsibilities:

- a. Assists the Board and the Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agenda for those meetings;
- b. Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;
- c. Keeps abreast of relevant laws, regulations, governance issuances of the Commission, relevant industry developments and operations of the Company, and advises the Board Chairperson on all relevant issues as they arise;
- d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and the Management, the Board and its committees, and the Board and its stakeholders, including shareholders;
- e. Advises on the establishment of board committees and their terms of reference;
- f. Informs members of the Board, in accordance with the By-Laws, of the agenda of their meetings at least five (5) working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Performs required administrative functions;
- i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and,
- j. Performs such other duties and responsibilities as may be provided by the Board or the SEC.

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

The Compliance Officer is a member of the Company's Management team in charge of the compliance function. Similar to the Corporate Secretary, s/he is primarily liable to the Company and its shareholders, and also to the Chairperson or CEO of the Company. S/he has, among others, the following duties and responsibilities:

- a. Ensures proper onboarding of new Directors (i.e., orientation on the Company's business, charter, articles of incorporation and by-laws, among others) in accordance with the Company's Directors' and Officers' Training Policy (See Annex "B");
- b. Monitors, reviews, evaluates and ensures the compliance by the Company, its Officers and Directors with the relevant laws, this RMCG, the Code, rules and regulations and all governance issuances of regulatory agencies;
- c. Reports any substantial violation of the relevant compliance laws, this RMCG, rules and regulations and all governance issuances of regulatory agencies by the Management and Directors and recommends the imposition of the appropriate disciplinary action;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the SEC when summoned in relation to compliance-related issues;
- f. Collaborates with other departments of the Company to properly address compliance issues, which may be subject to investigation;
- g. Identifies possible areas of compliance issues and works towards the resolution of the same;

- h. Ensures the attendance of Directors and Officers to relevant trainings; and,
- i. Performs such other duties and responsibilities as may be provided by the Board or the Commission.

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

The fiduciary roles, responsibilities and accountabilities of the Board, as provided under the law, the Company's Articles and By-Laws, and other legal pronouncements and guidelines should be clearly made known to all Directors as well as to the shareholders and other stakeholders.

- 2.1 The Directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all shareholders.
- 2.2 The Board shall oversee the development of and approve the Company's business objectives and strategy, and monitor their implementation, in order to sustain the Company's long-term viability and strength.
- 2.3 The Board shall be headed by a competent and qualified Chairperson.

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

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Company, 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 the Management;
  - e. Assures the availability of proper orientation for first-time Directors and continuing training opportunities for all Directors in Accordance with the Company's Directors' and Officers' Training Policy (See Annex "B"); and
  - f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.
- 2.4 The Board shall be responsible for ensuring and adopting an effective succession planning program for Executive Directors, Officers and Management to ensure continued growth and increase in the shareholders'



value. This should include adopting a policy on the retirement age for Executive Directors and Officers as part of management succession and to promote dynamism in the Company.

- 2.5 The Board, through the Compensation Committee, shall align the remuneration of Officers and Directors with the long-term interests of the Company. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance. No Director shall participate in discussions or deliberations involving his own remuneration.
- 2.6 The Board, through the Nominations Committee, shall strictly implement the policy adopted by the Company for the nomination, election or replacement of a Director in compliance with the rules and regulations issued by the relevant regulatory authorities. In addition, the Board shall ensure that the process of identifying the quality of Directors shall be aligned with the strategic direction of the Company.

The grounds for the permanent and temporary disqualification of Directors are discussed in the Board Charter (See Annex “A”).

- 2.7 The Board shall approve a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass thresholds of materiality. The policy includes the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy encompasses all entities within the group, taking into account their size, structure, risk profile and complexity of operations. Attached as Annex “D” is a copy of the Company’s Related Party Transactions Policy.
- 2.8 The Board is primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).
- 2.9 The Board shall establish an effective performance management framework that will ensure that the Management, including the CEO and personnel’s performance are at par with the standards set by the Board and, in most instances, Officers.
- 2.10 The Board shall ensure 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 has approved and adopted an Internal Audit Charter attached hereto as Annex “E”, which it shall strictly implement.
- 2.11 The Board shall 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/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.

- 2.12 The Board shall have a Board Charter (See Annex “A”) that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the Directors in the performance of their functions and is publicly available and posted on the Company’s website.

### 3. ESTABLISHING BOARD COMMITTEES

Board Committees are set up, to the extent possible, to support the effective performance of the Board’s functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established are contained in their publicly-available Committee Charters.

- 3.1 The Board shall establish board committees that focus on specific Board functions to aid in the optimal performance of its roles and responsibilities. The Board may, from time to time, create additional or merge or abolish board committees, which it may deem necessary to effectively assist the Board in the performance of its functions.
- 3.2 The Board shall establish an Audit Committee to enhance its oversight capability over the Company’s financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The committee shall be composed of at least three appropriately qualified Non-Executive Directors, the majority of whom, including the Chairman, as much as practicable, shall be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. As much as practicable, the Chairman of the Audit Committee shall not be the Chairperson of the Board or of any other committees. The Audit Committee shall be guided by the Audit Committee Charter attached hereto as Annex “F”.
- 3.3 The Board shall establish a Corporate Governance and Related Party Transaction Committee that is tasked to assist the Board in the performance of its corporate governance responsibilities and review all material related party transactions of the Company. As much as practicable, it shall be composed of at least three members, majority of whom shall be Independent Directors. The Corporate Governance and Related Party Transaction Committee shall be guided by the Corporate Governance and Related Party Transaction Committee Charter attached hereto as Annex “G”.
- 3.4 The Board shall establish a Nominations Committee to assist the Board in dealing with matters relating to the appointment and removal of directors. The Committee shall be composed of at least three (3) members, As much as practicable, the Chairman must be either an independent director or the Chairperson. The Nominations Committee shall be guided by the Nominations Committee Charter attached hereto as Annex “H”.

- 3.5 The Board shall establish a Compensation Committee to establish a formal and transparent procedure for recommending the appropriate remuneration of directors and officers and to ensure that the compensation is consistent with the Company's financial strategy, sound risk culture, as well as the business environment in which it operates. The Compensation Committee shall consist of at least three members. As much as practicable, the Chairman shall be an independent director. The Compensation Committee shall be guided by the Compensation Committee Charter attached hereto as Annex "I".
- 3.6 The Board shall establish a Finance Committee that is tasked to have primary oversight responsibility over the Company's corporate finance activities and the financing of major acquisitions. The Committee shall be composed of at least three members, one of whom, as far as practicable, shall be an independent director. The Finance Committee shall be guided by the Finance Committee Charter attached hereto as Annex "J".
- 3.7 Considering the Company's size, risk profile and complexity of operations, the Board shall establish a separate Board Risk and Resource Oversight Committee that is responsible for the oversight of a Company's Enterprise Risk Management system to ensure its functionality and effectiveness. It shall be composed of at least three members, the majority of whom, as much as practicable, shall be Independent Directors, including the Chairman. As much as practicable, the Chairman shall not be the Chairperson of the Board or of any other committee. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management. The Board Risk and Resource Oversight Committee shall be guided by the Board Risk and Resource Oversight Committee Charter attached hereto as Annex "K".
- 3.8 The Company shall adopt a charter for each committee stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters provide the standards for evaluating the performance of the Committees. They are fully disclosed on the Company's website.

#### 4. FOSTERING COMMITMENT

To show full commitment to the Company, the Directors shall devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Company's business.

- 4.1 The Directors shall attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the Director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

- 4.2 The Non-Executive Directors of the Board should concurrently serve as Directors, as much as practicable, to a maximum of five publicly listed companies to ensure that they have sufficient time to fully prepare for meetings, challenge management's proposals/views, and oversee the long-term strategy of the Company.
- 4.3 The Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. In any case, the capacity of Directors to diligently and efficiently perform their duties and responsibilities to the Company shall not be compromised.
- 4.4 A Director shall notify the Board where s/he is an incumbent Director before accepting a directorship in another company.

## 5. REINFORCING BOARD INDEPENDENCE

The Board shall endeavor to exercise an objective and independent judgment on all corporate affairs.

- 5.1 The Board shall have at least two (2) independent directors, or such number as to constitute at least 20% of the Board.
- 5.2 The Board shall ensure that its Independent Directors possess the necessary qualifications and none of the disqualifications for an Independent Director to hold the position.
- 5.3 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 Company, but may continue to qualify for nomination and election as a Non-Independent Director. In the instance that the Company wants to retain an Independent Director who has served for nine (9) years beginning 2012, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.
- 5.4 The positions of Chairperson and CEO shall be held by separate individuals and each shall have clearly defined responsibilities.

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

- a. Determines the Company's strategic direction and formulates and implements its strategic plan on the direction of the business;
- b. Communicates and implements the Company'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 Company and manages human and financial resources in accordance with the strategic plan;
- d. Has a good working knowledge of the Company'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 Company;

- f. Manages the Company'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 Company; and,
- i. Serves as the link between internal operations and external stakeholders.

The roles and responsibilities of the Chairperson are provided under Clause 2.3 herein.

The Board ideally should designate a lead director among the Independent Directors if the Chairperson of the Board is not independent.

- 5.5 A Director with a material interest in any transaction affecting the Company shall abstain from taking part in the deliberations for the same.
- 5.6 The Non-Executive Directors 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 within the corporation. The meetings shall be chaired by the lead Independent Director, whenever applicable.

## 6. ASSESSING BOARD PERFORMANCE

The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

- 6.1 The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairperson, individual members and committees. As much as practicable, every three years, the assessment shall be supported by an external facilitator. Attached as Annex "L" is a copy of the Company's Performance Appraisal / Assessment Policy.
- 6.2 The Board shall have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual Directors, committees and such system should allow for a feedback mechanism from the shareholders.

## 7. STRENGTHENING BOARD ETHICS

Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

- 7.1 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, Officers,

Executives and Employees. It shall also be disclosed and made available to the public through the Company website.

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

## 8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES

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

- 8.1 The Company shall establish corporate disclosure policies and procedure to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders and gives a fair and complete picture of the Company's financial condition, results and business operations.
- 8.2 The Company shall have a policy requiring all Directors and Officers to disclose/report to the Company any dealings in the Company's shares within three (3) business days.
- 8.3 The Board shall fully disclose all relevant and material information on individual Directors and Officers to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.
- 8.4 The Company shall provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report.
- 8.5 The material or significant RPTs reviewed and approved during the year, as provided in the Company's Related Party Transactions Policy (See Annex "D"), shall be disclosed in the Company's Annual Corporate Governance Report.
- 8.6 The Company shall make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.
- 8.7 The Company's corporate governance policies, programs and procedures are found in this RMCG, which shall be submitted to the regulators and posted on the Company's website.

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

The Company shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

- 9.1 The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor should be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change shall be disclosed to the regulators and the public through the Company website and required disclosures.
- 9.2 The Audit Committee Charter (See Annex "F") includes the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter also contains the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.
- 9.3 The Company shall disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee should be alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

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

The Company shall ensure that all material and reportable non-financial and sustainability issues are disclosed.

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

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

The Company shall maintain comprehensive and cost-efficient communication channels for disseminating relevant information. These channels are crucial for informed decision-making by investors, stakeholders and other interested users.

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

## INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK

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

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

- 12.1 The Company's internal control system and enterprise risk management framework should adequately take into account its size, risk profile and complexity of operations.
- 12.2 The Company shall have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations.

A separate internal audit function is essential to monitor and guide the implementation of Company policies. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of the Company's governance, risk management and control functions. The following are the functions of the internal audit, among others:

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



h. Monitors and evaluates governance processes.

- 12.3 Subject to the Company's size, risk profile and complexity of operations, the Company 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, whenever practicable. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel should be assigned the responsibility for managing the fully outsourced internal audit activity.

The CAE, in order to achieve the necessary independence to fulfill his/her responsibilities, directly reports functionally to the Audit Committee and administratively to the CEO. The following are the responsibilities of the CAE, among others:

- a. Periodically reviews the Internal Audit Charter and presents it to the Officers and the Board Audit Committee for approval;
  - b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;
  - c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to the Officers and the Audit Committee for review and approval;
  - d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;
  - e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and,
  - f. Presents findings and recommendations to the Audit Committee and gives advice to the Officers and the Board on how to improve internal processes.
- 12.4 Considering its size, risk profile and complexity of operations, the Company shall have a separate risk management function to identify, assess and monitor key risk exposures.

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

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

- c. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;
  - d. Establishing a risk register with clearly defined, prioritized and residual risks;
  - e. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;
  - f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee; and,
  - g. Monitoring and evaluating the effectiveness of the organization's risk management processes.
- 12.5. In managing the Company's Risk Management System, the Company shall have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his/her responsibilities, subject to a Company'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 documentation;
- b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk and Resource Oversight Committee;
- c. Collaborates with the CEO in updating and making recommendations to the Board Risk and Resource Oversight Committee;
- d. Suggests ERM policies and related guidance, as may be needed; and
- e. Provides insights on the following:
  - Risk management processes are performing as intended;
  - Risk measures reported are continuously reviewed by risk owners for effectiveness; and,
  - Established risk policies and procedures are being complied with.

There should be clear communication between the Board Risk and Resource Oversight Committee and the CRO.

### 13. PROMOTING SHAREHOLDER RIGHTS

The Company shall treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

- 13.1 The Board ensures that basic shareholder rights are disclosed in this RMCG and on the Company's website.

### **Stockholders' Right**

The Board shall respect the right of the stockholders as provided for in the Corporation Code, as well as the Articles of Incorporation, By-Laws and all resolutions adopted by the Board establishing and designating classes or series of shares of stock of the Company (the "Constitutive Documents"). These rights are as follows:

- a. Right to inspect corporate books and records including minutes of Board meetings and stock registries; provided that, such right may be denied by the Board if the requesting stockholder improperly used information secured from prior examination, or is not acting in good faith, or does not have a legitimate purpose for inspecting the records, or if the Board determines it necessary to safeguard the rights and legitimate interest of the Company such as when the records to be inspected contain sensitive or confidential information or are covered by a confidentiality or non-disclosure obligation which will be breached by the Company if such records were made available for inspection.
- b. Right to receive information that is required to be disclosed by the Company pursuant to the Corporation Code or Securities Regulation Code.
- c. Right to dividends subject to the provisions of the Corporation Code, the Company's Articles and By-Laws, and the resolutions duly adopted by the Board.
- d. Appraisal right or the right to dissent and demand payment of the fair value of their shares in the instances provided for under the Corporation Code.
- e. Dividend Policy

The Company declares dividends, consistent with its dividend policy as stated in the Company By-Laws, and pays in an equitable and timely manner. The Company's dividend policy is to distribute up to 25% of core net income and to pay cash dividends within thirty (30) calendar days to shareholders of record from date of declaration.

- f. Right to Participate Effectively, Nominate and Vote

The Company's shareholders have the right to participate in decisions concerning fundamental corporate changes. The following corporate actions require the vote of shareholders holding at least 2/3 of the Company's outstanding capital stocks:

- Amendment to the Articles of Incorporation;
- Increase in capital stock;
- Sale or disposition, including the constitution of a mortgage or a pledge, of all or substantially all of the Company's assets;

- Investment of Company funds for a purpose other than the Company's primary purpose;
- Waiver of pre-emptive rights for specific transactions; and,
- Mergers and consolidations.

Shareholders have the right to participate effectively and vote in general shareholders' meetings. The Company ensures that shareholders are informed of the rules, including the voting procedures that govern general shareholders' meetings. Shareholders have the opportunity to approve remuneration, in terms of profit sharing, which is contained in the Company's By-Laws. Any amendment to the By-Laws will require a vote of a majority of the total outstanding capital stock.

All shareholders have the right to vote each year for the following:

- Election of directors;
- Approval of the Minutes of shareholders' meeting/s held in the previous year;
- Approval of the annual report and the audited financial statements;
- Selection of election inspectors for the ensuing year; and
- Selection of the external auditors.

Stockholders, who have matters for discussion or concerns directly relating to the business of the Company, may initially elevate such matters or concerns to: (a) the Corporate Secretary; (b) the Investor Relations Office; (c) Management; or (d) the Board. Although all stockholders should be treated equally or without discrimination, where feasible or practicable the Board should give minority stockholders holding at least ten percent of the Company's shares, 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.

#### **Nomination Process:**

The Company also respects and recognizes the right of minority shareholders to nominate directors. This right is corollary to the right to vote, which is guaranteed under the Corporation Code of the Philippines and recognized in the Company's By-Laws. Under the Company's By-Laws, shareholders may submit nominations to the Board's Nominations Committee. The Board shall determine the deadline of nominations, which shall be in March of each year or such other date as may be determined by the Board, and duly disclose such deadline to give shareholders reasonable time submit their nominations.

#### **Voting Procedures:**

Voting is done by balloting and shareholders shall be entitled to vote either in person or by proxy. Shareholders who are present and did not submit proxies before the meeting are given ballots upon registration. In the case of proxies submitted prior to the meeting, the proxy designated by the shareholder to represent him/her at shareholders' meeting is provided with ballots for casting in accordance with the shareholders' instructions, as indicated in the proxy. Proxies and ballots will be tabulated by the

Company's stock transfer agent, assisted as appropriate by the independent election inspector, and results of the tabulation will be announced for the relevant items on the agenda.

The voting and tabulation procedures are further explained in the Company's Notice of Annual Shareholders' Meeting (ASM). The Corporate Secretary will likewise explain the voting procedures at the start of the meeting that will form part of the Minutes of ASM which will be posted in the Company's website within five days from the date of the ASM.

- 13.2 The Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting (ASM) with sufficient and relevant information at least 28 calendar days before the meeting.

#### Disclosure and Release of Notice of ASM to Shareholders

The Company shall send a Notice of ASM which states the date, time and place of meeting, including the rationale and explanation for each item in the agenda that requires shareholders' approval, to shareholders at least twenty eight (28) calendar days prior to the date of actual meeting.

- 13.3 The Board encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting shall be available on the Company website within five (5) business days from the end of the meeting.

The minutes of the ASM are posted in the Company's website within five (5) business days from the date of the meeting. The minutes consist of the open forum during the ASM, voting results per agenda, the resolutions taken up during the ASM and the attendance of Directors and Officers.

- 13.4 The Board should make available, at the option of a shareholder, an alternative dispute mechanism, which is included in the Company's Manual on Corporate Governance to resolve intra-corporate disputes in an amicable and effective manner, as follows:

#### Alternative Dispute Resolution System

##### *Corporation & Stockholders*

The policy is to assiduously pursue an amicable resolution of differences or conflicts with shareholders for the best interest of the Company and its stakeholders.

#### Procedures:

- A shareholder complainant refers the issue to the Corporate Secretary, who makes an initial evaluation, in consultation with the CEO, the Compliance Officer and officers directly involved, if any.

Where warranted, the matter is reported to the Chairperson for their inputs.

- The Corporate Secretary and/or the external counsel are tasked to pursue an amicable resolution with the concerned shareholder that is fair to both parties. The Corporate Secretary invites the shareholder to a meeting where the matter is discussed in detail. Every effort is made to favor the shareholder without causing prejudice to the Company and its stakeholders.
- Depending on the nature of the dispute and the significance of the matter, a Board approval is sought before entering into a compromise settlement.

#### *Company & Third Parties*

In the case of disputes with third parties, the policy is to pursue a fair settlement to avoid protracted and costly litigation, adopting the following procedures:

- A third party complainant refers the issue to the Corporate Secretary, who makes an initial evaluation in consultation with the CEO and other officers who may be directly involved, if any. External counsel may be consulted. Where the matter is significant or material, it is brought to the attention of the Chairperson;
- The Corporate Secretary is tasked to pursue an amicable settlement with the third party. Subject to a Board approval, external counsel may also be involved in this process. To the extent possible, litigation is avoided, subject always to the policy that the corporate interest must be the first consideration; and,
- Depending on the nature of the controversy or the amount involved, a compromise settlement will require the prior approval of the CEO or the Chairperson, or ultimately the Board.

#### *Company & Regulatory Authorities*

Any dispute with a regulatory authority is always deemed to be of the highest priority. The policy of the Company is to adhere to all applicable laws, rules and regulations and to always cooperate with regulatory authorities consistent with law and the interests of the Company and of its stakeholders, with the following procedures:

- A concerned department refers the matter immediately to the Corporate Secretary or for tax matters, to the Treasurer, who must bring the matter to the attention of the CEO. Where the Commission or the PSE is involved, the matter is immediately referred to the Corporate Secretary, who will also consult with the CEO and the Treasurer. Significant matters are immediately reported to the Chairperson;
- Significant matters are reported to the Board;

- The Corporate Secretary is tasked to pursue an amicable settlement with the regulatory authority. For tax matters, the Treasurer consults tax counsel and pursues a fair and lawful resolution of the matter with the tax authority; and
- Where warranted under the circumstances (depending on amount, nature, etc.), a Board approval is obtained. This must be done expeditiously and with little or no delay.

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

#### 14. DUTIES TO STAKEHOLDERS

The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders shall have the opportunity to obtain prompt and effective redress for the violation of their rights.

- 14.1 The Board should identify the Company's various stakeholders and promote cooperation between them and the Company in creating wealth, growth and sustainability.
- 14.2 The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.
- 14.3 The Board shall adopt a transparent framework and process that allow stakeholders to communicate with the Company and to obtain redress for the violation of their rights.

#### 15. ENCOURAGING EMPLOYEES' PARTICIPATION

A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.



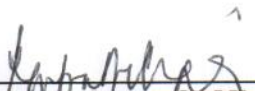
- 15.1 The Board shall establish policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and in its governance.
- 15.2 The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Business Conduct and Ethics. Further, the Board shall disseminate the policy and program to Officers, Executives and Employees across the organization through trainings to embed them in the Company's culture.
- 15.3 The Board shall establish a suitable framework for whistleblowing that allows Executives and Employees to freely communicate their concerns about illegal

or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

#### 16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY

The Company shall be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

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

 <b>Manuel V. Pangilinan</b> Chairman of the Board  Date: <u>30 May 2017</u>	 <b>Paraluman M. Navarro</b> Compliance Officer  Date: <u>30 May 2017</u>	 <b>Barbara Anne C. Migallos</b> Corporate Secretary  Date: <u>30/5/2017</u>
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APPROVED BY THE BOARD OF DIRECTORS  
ON MAY 30 2017