



CORPORATE GOVERNANCE MANUAL

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Article I

PREAMBLE

Corporate Governance refers to “the framework of rules, systems and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates”.¹ It encompasses the entirety of the legal and factual regulatory framework for managing and supervising a Corporation².

The primary goal of Corporate Governance is to create and sustain increased value in the Corporation for all of its stockholders and other stakeholders. To achieve this goal, it is necessary – among other things – to clearly set forth the principles of appropriate supervision and good management, and thereby lay the groundwork for development and implementation of value-creating activities. Moreover, it is as important that these agreed principles of governance are made transparent to all stockholders concerned, thereby safeguarding stockholders’ and other stakeholders’ rights as well as promoting stockholders’ and other stakeholders’ participation in the corporate governance process.

The framework for Corporate Governance is not drawn from any single document. The Philippine Corporation Code lays down the basic legal framework for corporate governance of every Philippine Corporation. It is supplemented by: (1) the Securities Regulation Code (Republic Act No. 8799), (2) the implementing rules and regulations issued by the Securities and Exchange Commission (“SEC” or “Commission”), (3) the Code of Corporate Governance (SEC Memorandum Circular No. 2, Series of 2002), (4) the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009), and (5) the Amendment to the Revised Code of Corporate Governance (SEC Memorandum Circular No. 9, Series of 2014) and (6) the Code of Corporate Governance for Publicly-listed Companies (SEC Memorandum Circular No. 19, Series of 2016). All the terms used herein are used with the meanings assigned to them by said laws and implementing rules and regulations.

The machinery for Corporate Governance of Ayala Land, Inc. (“Ayala Land, Inc.” or the “Corporation”) is principally contained in the Corporation’s Articles of incorporation and By-Laws and their amendments. These constitutive documents lay down, among others, the basic structure of governance, minimum qualifications of Directors, and the principal duties of the Board of Directors and officers of the Corporation. The function of this Manual of Corporate Governance is to supplement and complement the Corporation’s Articles of incorporation and By-Laws by setting forth principles of good and transparent governance.

The Board of Directors, Management, Officers and employees of Ayala Land, Inc. hereby commit themselves to the principles and best practices of governance contained in this Manual as a guide in the attainment of its corporate goals. The Corporation shall make a continuing effort to create awareness of good corporate governance within the organization.³ At the same time, the entire organization hereby declares its continuing commitment to the Vision statement and corporate values of Ayala Land, Inc.

¹Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2009, as amended by SEC Memorandum Circular No. 9, series of 2014.

² Berlin Initiative Group Code of Corporate Governance

³SEC Model

VISION AND MISSION

Enhancing Land and Enriching Lives, for More People

CORE VALUES

Leadership, Integrity, Vision, Excellence and Malasakit

Article II

GOVERNANCE

1. The Board of Directors

The Board of Directors is the supreme authority in matters of governance and managing the regular and ordinary business of the Corporation. Within their chartered authority, the Directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgment. It shall be the Board's responsibility to promote and adhere to the principles and best practices of corporate governance, to foster the long-term success of the Corporation and to secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its shareholders and other stakeholders.

1.1 Composition

The Board of Directors shall have nine (9) members, more than 50% of whom shall be independent and/or non-executive Directors, who shall be elected by a majority of the Corporation's outstanding capital stock at the annual meeting, and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the By-Laws of the Corporation.

The Board has to be composed in such a way that it possesses, as a group, the necessary knowledge, skills and experience required to properly perform its duties.

The Board shall encourage the selection of a mix of competent Directors, each of whom can add value and contribute independent judgment in the formulation of sound corporate strategies, policies and decisions.

In the selection of candidates for the Board, the objectives set by the Board for its composition shall be seriously considered, as well as the required knowledge, abilities and experience needed to successfully manage the Corporation.

The Board shall regularly review its composition, taking into account the evolving requirements of the Corporation, and best practices in corporate governance.

1.2 Diversity

Careful attention must be given to ensure that there is independence and diversity, and appropriate representation of women in the Board, subject to the possession of the knowledge, abilities and experience determined by the Board as necessary for the Board to properly perform its functions.

It is important to have Board diversity to avoid groupthink and ensure that optimal decision-making is achieved. Diversity is not limited to gender and includes age, ethnicity, culture, skills, competence and knowledge.

1.3 Qualifications

A Director of Ayala Land, Inc. shall have the following qualifications⁴:

- a. Ownership of at least one (1) share of the capital stock of the Corporation;
- b. A college degree or its equivalent or adequate competence and understanding of the fundamentals of the real estate industry or sufficient experience and competence in managing a business to substitute for such formal education;
- c. Membership in good standing in relevant industry, and membership in business or professional organizations.⁵; and
- d. Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions.

1.4 Retirement Age

With a view towards adopting an effective succession planning program for directors, as a general rule, the retirement age for Directors is 80 years old, subject to such exceptions as may be approved by the Board of Directors, taking into account the relevant qualifications and invaluable contribution of the Director and the special circumstances affecting the Corporation.

1.5 Disqualifications

The following persons are disqualified from being a Director of the Corporation:

- a. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that: (i) involves the purchase or sale of securities as defined in the Securities Regulations Code; (ii) 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; and (iii) arises out of his relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
- b. Any person who, by reason of any misconduct, after hearing, is permanently by a final judgment or order of the Commission or any court or other administrative body of competent jurisdiction from; (i) acting as an underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or a floor broker; (ii) acting as a Director or officer of a bank, quasi-bank, trust company, investment house, investment company; (iii) engaging in or continuing any conduct or practice in any of the

⁴ Except for item (b) which is a legal requirement, all other qualifications are derived from the SEC Model

⁵ Revised CG Code, Article 3. D) (iii)

capacities mentioned in sub-paragraph (i) and (ii) above, or willfully violating the laws that govern securities and banking activities. The disqualification should also apply if (i) such person is the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued under the Corporation Code, Securities Regulation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or under any rule or regulation promulgated by the Commission or Bangko Sentral ng Pilipinas, (ii) such person has otherwise been restrained to engage in any activity involving securities and banking; (iii) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership or participation or association with a member or participant of the organization;

- c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;
- d. Any person who has been adjudged by final judgment by the Commission, Bangko Sentral ng Pilipinas, court of competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code of the Philippines, or any other law, rule, regulation or order administered by the Commission, or Bangko Sentral ng Pilipinas;
- e. Any person judicially declared as insolvent;
- f. Any person finally found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct listed in the foregoing paragraphs; and
- g. Conviction by final judgment of an offense punishable by imprisonment 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.⁶
- h. Other grounds as the Commission may provide.
- i. No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged⁷
 - i. If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any Corporation (other than one in which the Corporation owns at least 30% of the capital stock) engaged in a business which the Board, by at

⁶ Disqualifications (a), (b) and (d) to (f) are required by the SEC Model; disqualification (c) is required by the Public Service Law.

⁷By-Laws, Article IV, Section 2.

least three-fourths (3/4) vote, determines to be competitive or antagonistic to that of the Corporation; or

- ii. If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any other Corporation or entity engaged in any line of business of the Corporation, when in the judgment of the Board, by at least three-fourths (3/4) vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or
- iii. If the Board, in the exercise of its judgment in good faith, determines by at least three-fourths (3/4) vote that he is the nominee of any person set forth in (h.i) or (h.ii).

In determining whether or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relations.

- j. An independent Director, after serving for nine (9) years, shall be perpetually barred from being elected as such in the Corporation, without prejudice to being elected as independent Director in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in the rules and regulations of the SEC.⁸

1.6 Temporary Disqualification of Directors

The following are grounds for temporary disqualification of incumbent Directors:

- a. Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.
- b. Absence or non-participation for whatever reason(s) in more than Seventy-Five Percent (75%) of all meetings, both regular and special, of the Board of Directors during his incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident.⁹This disqualification applies for purposes of the succeeding election.
- c. Dismissal/ termination for cause as Director of any publicly-listed company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself of any involvement in the cause that gave rise to his dismissal or termination.
- d. Being under preventive suspension by the Corporation for any reason.

⁸ SEC Memorandum Circular No. 9, series of 2011.

⁹ Revised CG Code, Article 3.E) 2. (ii).

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

Temporary disqualification shall be at the discretion of the Board and shall require a resolution of a majority of the Board.

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.¹⁰

1.7 Independent Directors

Independent Directors shall hold no interests or relationships with the Corporation that may hinder their independence from the Corporation or Management or interfere with the exercise of independent judgment in carrying out the responsibilities of a Director.

An independent Director shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Corporation, Management or controlling shareholder at the time of his election or appointment and/or re-election as a Director.¹¹

Independent Directors may serve for a period of not more than nine (9) years. Moreover, for purposes of compliance with the legal requirement on independent Directors –

- a. Officers, executives and employees of the Corporation may be elected as Directors but cannot and shall not be characterized as independent Directors.
- b. If a Director elected or appointed as an independent Director subsequently becomes an officer or employee of the Corporation, the Corporation shall forthwith cease to consider him as an independent Director.
- c. If the beneficial security ownership of an independent Director in the Corporation or in its related companies exceeds two percent (2%)¹², the Corporation shall forthwith cease to consider him as an independent Director until the beneficial security ownership of the Director is reduced to two percent (2%) or lower.
- d. Independent Directors are not entitled to receive options, performance shares, and bonuses except pursuant to a resolution approved by stockholders owning at least a majority of the outstanding capital stock.

The Corporation shall, as appropriate, provide independent Directors with technical support staff to assist them in performing their duties for such committees. Independent Directors may, when necessary, also request and receive support from executives, employees or outside professionals such as

¹⁰ Revised CG Code, Article 3.I.

¹¹ Korean Code of Best Practice for Corporate Governance.

¹² Revised CG Code, Article 3. E) 2. (iv).

auditors, advisers and counsel to perform such duties. The Corporation shall cover the reasonable expenses of providing such support.

- e. The Board shall designate a lead independent Director among the independent Directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and Chief Executive Officer are held by one (1) person to ensure independent views and perspectives and avoid the abuse of power and authority, and potential conflict of interest.

The functions of the lead independent Director include, among others, the following:

- i. Serving as an intermediary between the Chairman and the other Directors when necessary;
- ii. Convening and chairing meetings of the non-executive Directors; and
- iii. Contributing to the performance evaluation of the Chairman, as required.

1.8 Policy on Multiple Board Seats

The Corporation shall ensure that adequate time and attention is given to the fulfillment of each Directors' duties.

Independent Directors shall hold no more than five (5) board seats in any group of publicly-listed companies and executive Directors shall hold no more than two (2) board seats in listed companies outside the Corporation's group.

1.9 Board Meetings and Quorum Requirements

- a. Members of the Board should attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by the SEC. Two-thirds (2/3) of the number of Directors as fixed in the Articles of incorporation shall constitute a quorum for the transaction of corporate business.
- b. The Board may, to promote transparency, require the presence of at least one (1) independent Director in all of its meetings.¹³ However, the absence of an independent Director shall not affect the quorum requirement if he is duly notified of the meeting but notwithstanding such notice fails to attend.
- c. The Board shall designate the days when it shall meet, but it shall meet at least six (6) times each calendar year.

¹³ Revised CG Code, Article 3.1

- d. Non-executive Directors (NEDs) shall hold meetings semi-annually for proper check and balance; to ensure adequacy of the Company's internal controls and effectiveness of risk management. NEDs shall meet without the presence of executive Directors and may call on the external auditor and/or heads of internal audit, compliance and risk units as resource persons.

1.10 General Responsibility of the Board for Good Governance

- a. Compliance with the principles of good governance shall start with the Board of Directors.¹⁴ It shall be the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in the global environment in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Corporation, its stockholders and other shareholders.¹⁵
- b. To ensure good governance of the Corporation, the Board should establish the vision and mission, strategic objectives and key policies and procedures for the management of the Corporation, as well as the mechanism for monitoring and evaluating Management's performance.¹⁶
- c. To the extent set forth above, the Board of Directors shall orient all its activities towards three (3) general guidelines:
 - i. All actions taken by the Board are subject to the principle of legal permissibility. They must therefore not infringe on the appropriate provisions of Philippine law and the Corporation's constitutive documents.
 - ii. All actions taken by the Board are subject to the principle of economic usefulness. They should accordingly contribute to increasing the value of the Corporation in a sustainable manner.¹⁷
 - iii. The Board should, when carrying out its duties, be aware of its duty as the governing body of a publicly-listed company.
- d. The Board shall ensure the presence and adequacy of internal control mechanisms for good governance. The minimum internal control mechanisms for the Board's oversight responsibility include, but shall not be limited to¹⁸:
 - i. Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;

¹⁴SEC Model.

¹⁵SEC Model.

¹⁶SEC Model.

¹⁷ Berlin Initiative Group German Code of Corporate Governance

¹⁸ SEC Memorandum Circular No. 2, series of 2002.

- ii. Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;
- iii. Appointing a CEO with the appropriate ability, integrity, and experience to fill the role; and defining the duties and responsibilities of the CEO;
- iv. Reviewing proposed senior management appointments;
- v. Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Corporation's personnel and human resources policies, compensation plan and the management succession plan;
- vi. Institutionalizing the internal audit function;
- vii. Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

1.11 Board Self-Assessment

The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees.

To strengthen the objectivity of the assessment, the Board will engage an external facilitator to conduct the process every three (3) years.

The external facilitator can be any independent party such as, but not limited to, a consulting firm, an academic institution, or a professional organization.

1.12 Specific Duties of the Board of Directors

The Board shall exert its best effort to ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders. To do so, it shall perform all the functions which it is required to perform in the Corporation's By-Laws with honesty and integrity, and shall –

- a. Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and minutes should be taken of such meetings;
- b. Constitute an Audit Committee and such other committees as are required in the By-Laws of the Corporation;
- c. Select and appoint a President/ Chief Executive Officer and other senior officers with the appropriate level of motivation, integrity, competence and professionalism;

- d. Adopt a professional development program for employees and officers, and succession planning for senior management and key positions in the Corporation;
- e. Provide sound written policies and strategic guidelines on key capital expenditures, and periodically evaluate and monitor implementation of such strategies;
- f. Ensure that the Corporation complies with all relevant laws, regulations and as far as possible best business practices;
- g. Formulate a clear communication and disclosure strategy to accurately, timely and effectively communicate with the SEC, the PSE and the Corporation's stockholders and other stakeholders on matters of importance;
- h. Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. Such systems shall be regularly reviewed and updated to render for effectiveness;
- i. Identify and monitor, and endeavor to provide appropriate technology and systems for the identification and monitoring of key risks and key performance areas;
- j. The Board is primarily responsible to the stockholders for financial reporting and control, and should:
 - i. Provide to all stockholders relevant and timely information about the Corporation, including but not limited to a periodic report and an annual report of the Corporation's performance, position and prospects through publicly available reports submitted to the Securities and Exchange Commission;
 - ii. Present a balanced and understandable assessment of the Corporation's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;
 - iii. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
 - iv. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
 - v. Maintain a sound system of internal control to safeguard stockholders' investment and the Corporation's assets';
 - vi. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and

efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;

- vii. Require the Chief Audit Executive to render to the Audit Committee an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management;
- k. Recommend to the stockholders the appointment of external auditors, in accordance with the recommendation of the Audit Committee;
- l. Create a procedure for Directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the Corporation's expense, which expense shall be reasonable;
- m. Create an internal self-rating system and conduct an annual performance assessment of the Board, its individual members, its committees, the President and CEO, and Management;¹⁹
- n. Cause the Corporation to participate in the Corporate Governance Survey using the CG Scorecard as an instrument;²⁰
- o. Ensure that all Directors, executives and employees adhere to the Corporation's Code of Ethics.

1.13 Specific Responsibilities of each Director

A Director's office is one of trust and confidence. He should act in the best interest of the Corporation in a manner characterized by transparency, accountability and fairness. He should exercise leadership, prudence and integrity in directing the Corporation towards sustained progress over the long term.²¹

In addition to the duties and responsibilities of a Director set forth in the Corporation's By-Laws and existing relevant statutes, a Director shall:

- a. Conduct fair business transactions with the Corporation and ensure that personal interest does not bias Board decisions. A Director shall not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. He should observe the conflict of interest policy stated in this Manual.

¹⁹ Revised CG Code, Article 7.

²⁰ Revised CG Code, Article 10.

²¹ SEC Model.

- b. Devote time and attention necessary to properly discharge his duties and responsibilities. A Director should attend and actively participate in Board meetings.
- c. Act judiciously. Before deciding on any matter brought before the Board of Directors, every Director should evaluate the issues, ask questions and seek clarifications as appropriate.
- d. Exercise independent judgment. A Director should view each problem/ situation objectively and support plans and ideas which he believes are beneficial to the Corporation.
- e. Have a working knowledge of the statutory and regulatory requirements affecting the Corporation. This would include a firm knowledge of the contents of the Articles of incorporation and by-laws of the Corporation and the amendments thereof, the requirements of the PSE and SEC for the conduct of the Corporation's business, and where applicable, the requirements of other regulatory agencies.
- f. Observe confidentiality. A Director shall observe the confidentiality of non-public information acquired by reason of his position as a Director. He should not disclose any information to any other person without the authority of the Board.
- g. Ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment. Each Director is responsible for assuring that actions taken by the Board maintain the adequacy of the control environment within the Corporation.²²
- h. Exercise of degree of skill, diligence and care that a reasonably prudent person would exercise in similar circumstances. It shall be sufficient for a Director to act on an informed basis in good faith and in an honest belief that the action was taken in the best interest of the Corporation.²³
- i. Prior to assuming office, attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institution. The re-elected Directors shall likewise attend at least once a year, a seminar on corporate governance which shall be conducted by training providers that are duly accredited by the SEC. If necessary, funds shall be allocated by the Corporation for this purpose.
- j. Notify the Board where he/she is an incumbent director before accepting a directorship in another company.

²² SEC Memorandum Circular No 2, series of 2002.

²³ As suggested by the Audit and Risk Committee and approved by the Board.

1.14 Liability of Directors

Directors who willfully and knowingly vote or consent to patently unlawful acts of the Corporation or who are guilty of gross negligence or bad faith in directing the affairs of the Corporation or acquire any personal or pecuniary interest in conflict with their duty as such Directors, shall be liable jointly and severally for all damages resulting therefrom suffered by the Corporation, its stockholders and other persons.

When a Director attempts to acquire or acquires, in violation of his duty, any interest adverse to the Corporation, in respect of any matter which has been reposed in him in confidence, as to which equity imposes a disability upon him to deal in his own behalf, he shall be liable as a trustee for the Corporation and must account for the profits which otherwise would have accrued to the Corporation.²⁴

1.15 Compensation and Liability Insurance Coverage of Directors

- a. Each Director of the Corporation shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as Director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.²⁵
- b. Effective from the effective date of this Manual, no Director shall be involved in deciding his or her own remuneration.²⁶
- c. The Corporation, to ensure effectiveness of holding Directors accountable and to attract competent persons as Directors, may purchase at its own expense liability insurance coverage for its Directors. ²⁷

2. Board Committees

The Board of Directors may create such committees as it may deem necessary to support it in the performance of its functions and in accordance with the By-Laws of the Corporation and to aid in good governance. As a minimum, however, the Board shall be supported by the following committees:

2.1 Executive Committee

The Board may appoint from among its members an Executive Committee composed of not less than three (3) members, a majority of whom shall be citizens of the Philippines, and shall designate one (1) of such members as Chairman of the Executive Committee. One (1) of the members shall

²⁴ Corporation Code, Section 31.

²⁵By-laws, Article IV, Section 17.

²⁶SEC Model

²⁷Korean Code of Best Practices for Corporate Governance

be an independent Director. The proportion of non-Filipino nationals to citizens of the Philippines in the membership of the Executive Committee shall not at any time exceed the proportion that the number of shares of the Corporation held by aliens bears to the number of shares of the Corporation held by citizens of the Philippines as set forth in its Articles of incorporation.

- a. The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by majority vote of all its members on such specific matters within the competence of the Board of Directors as may from time to time be delegated to the Executive Committee in accordance with the Corporation's By-Laws, except with respect to --
 - i. approval of any action for which shareholders' approval is also required;
 - ii. the filling of vacancies on the Board or in the Executive Committee;
 - iii. the amendment or repeal of By-Laws or the adoption of new By-Laws;
 - iv. the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable;
 - v. the distribution of cash dividends;
 - vi. the exercise of powers delegated by the Board exclusively to other committees, if any.
- b. Two thirds (2/3) of the members of the Executive Committee shall constitute a quorum. The Executive Committee shall fix its own rules of procedure. An act of the Executive Committee which is within the scope of its powers shall not require ratification or approval for its validity and effectivity, provided however that the Board of Directors may at any time enlarge or redefine the powers of the Executive Committee. All actions of the Executive Committee shall be reported to the Board of Directors at the meeting thereof following such action and shall be subject to revision or alteration by the Board of Directors, provided that no rights or acts of third parties shall be affected by any such revision or alteration.

2.2 Corporate Governance and Nomination Committee²⁸

The Corporate Governance and Nomination Committee shall be composed of at least five (5) members where the majority shall be independent Directors, including its Chairman. The Committee shall have the following functions:

- a. Oversee the implementation of the Corporate Governance framework and periodically review the said framework to ensure that it remains appropriate in light

²⁸ Sec. 6(b)(i) of SEC Memorandum Circular No. 2, series of 2002, states that it shall be the duty of the Board of Directors "to install a process of selection to ensure a mix of competent Directors, each of whom can add value and contribute to the formulation of sound corporate strategies and policies."

of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments;

- b. Oversee the periodic performance evaluation of the Board and its committees as well as executive management, and conduct an annual self-evaluation of its performance;
- c. Ensure that the results of the Board evaluation are shared, discussed, and that concrete plans are developed and implemented to address identified areas for improvement;
- d. Recommend continuing education/training programs for Directors, assignment of tasks, projects to board committees, succession planning for the board members and senior officers.
- e. Adopt corporate governance policies and ensure that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Propose and plan relevant trainings for the members of the Board;
- g. Determine the nomination and election process for the Corporation's Directors and has the special duty of defining the general profile of board members that the Corporation may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board; and
- h. Establish a formal and transparent procedure to develop a policy for determining the remuneration of Directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates.
- i. Establish and maintain a process to ensure that all candidates/nominees for election as Directors at the Annual Stockholders' Meeting are qualified in accordance with the By-laws, Manual of Corporate Governance and relevant laws, rules and regulations and possess none of the disqualifications stated in the Corporation's Revised Code of Corporate Governance; and Corporate Governance Code for Publicly-Listed Companies.
- j. Encourage the selection of a mix of competent Directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. In the selection of candidates, the objectives set by the Board regarding its composition are to be seriously considered, as well as the required knowledge, abilities and experience needed to successfully manage the Corporation. Careful attention must be given to ensure that there is independence and diversity, and appropriate representation of women in the Board, subject to the possession of the knowledge, abilities and experience determined by the Board as necessary for the Board to properly perform its functions;
- k. Review and evaluate the qualifications of persons nominated to positions in the Corporation which require appointment by the Board, and provide guidance and advice as necessary for the appointments of persons nominated to other positions.

- l. Review and disclose succession plans for members of the Board, and officers for the position of Group Directors to the President/CEO.
- m. Provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members and in appointing officers or advisors and develop, update as necessary and recommend to the Board policies for considering nominees for Directors, officers or advisors.
- n. Discharge any other duties and responsibilities delegated to the Committee by the Board from time to time.

The Committee shall be guided by the Corporation's mission and vision in the fulfillment of its functions.

2.3 Personnel and Compensation Committee²⁹

The Personnel and Compensation Committee shall be composed of at least three (3) members, as far as practicable, majority of whom shall be independent Directors,³⁰including its Chairman. It shall have the following duties and responsibilities:

- a. Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and Directors, and provide oversight over remuneration of senior management and other key personnel ensuring that a performance-based compensation is provided for and consistent with the Corporation's culture, strategy and control environment;
- b. Designate the amount of remuneration, which shall be in a sufficient level to attract and retain Directors and officers who are needed to run the Corporation successfully;
- c. Establish a formal and transparent procedure for developing a policy on remuneration packages of individual Directors, if any, and officers, which policy shall disallow independent Directors from receiving options, performance shares and bonuses;
- d. Develop a form of Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired;
- e. Provide for the Corporation's annual reports, information and proxy statements a clear, concise and understandable disclosure of compensation of its executive officers for the previous fiscal year and the ensuing year;

²⁹Formerly, the Compensation Committee.

³⁰ SEC Memorandum Circular No. 2, series of 2002; SEC Model.

- f. Review and recommend changes to the existing Human Resources Development or Personnel Handbook, to strengthen provisions of conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts;
- g. Provide for the Corporation's annual report the Corporation's fee structure of non-executive Directors, and ensure that independent Directors are not entitled to receive options, performance shares and bonuses.

No member of the Personnel and Compensation Committee will act to fix his or her own compensation except for uniform compensation to Directors for their services as a Director.

2.4 Audit Committee

There shall be an Audit Committee composed of three (3) members entirely non-executive, a majority of whom shall be independent Directors. The independent Director shall chair the Audit Committee.

Each member shall have an adequate understanding of accounting and auditing principles in general and of the Corporation's financial management systems and environment in particular.

The Audit Committee is expected, through the provision of checks and balances, to bring positive results in supervising and supporting the management of the Corporation. It shall have the following particular duties and responsibilities:

Internal Audit

- a. Reviewing and approving the Internal Audit Charter and subsequent revisions thereto for approval of the Board. The Internal Audit Charter shall be periodically reviewed to ensure alignment with the International Standards for the Professional Practice of Internal Auditing (ISPPA).
- b. Set up the Internal Audit Division, including the appointment of the Chief Audit Executive (CAE). The Committee shall establish and identify the reporting line of the CAE so that the reporting levels allow the internal audit activity to fulfill its responsibilities. The CAE shall report directly to the Committee functionally. The Committee, having appointed the CAE, shall also concur in his/her replacement, re-assignment or dismissal. The Committee shall set up the qualification criteria for internal auditors.
- c. Ensure that the Internal Auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required by their function and that the Internal Audit Division shall be free from interference in determining its scope, performing its work and communicating its results.

- d. Approve the Annual Internal Audit Work Plan and all deviations therefrom, ensuring that the audit resources are reasonably allocated to the areas of highest risk. In the event that outsourcing internal audit services is needed, the terms and conditions for outsourcing should be approved by the Committee.
- e. Review reports of the Internal Auditors and regulatory agencies, where applicable, ensuring that Management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.
- f. Review Internal Audit Division's periodic reports and the Internal Audit Annual Report. Periodic reports shall highlight the status of projects in accordance with the audit plan approved by the Committee, as well as any unplanned projects. Such reports shall include a summary of key findings and recommendations, including the status of implementation. The Annual Report shall discuss the Internal Audit Division's activities and performance relative to the audit plans and strategies approved by the Committee.
- g. Conduct separate meetings with the CAE to discuss any matter that the Committee or the auditors may deem necessary to be discussed privately.
- h. Provide inputs on the performance of the Internal Audit Division and communicating/discussing such inputs with the Chief Finance Officer (CFO) who shall then translate these into a performance appraisal applicable to the CAE and the Internal Auditors taken as a whole.
- i. Institute special investigations as necessary and, if appropriate, hiring special counsel or experts to provide the necessary assistance.
- j. Review the evaluation of compliance with the Code of Conduct for management.

Financial Reporting

- k. Reviewing the financial statements and all related disclosures and reports certified by the Chief Financial Officer and released to the public and/or submitted to the SEC and for compliance with both the internal financial management handbook and pertinent accounting standards, including legal and regulatory requirements.
- l. Reviewing the quarterly, half-year and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, tax, legal, and stock exchange requirements.
- m. Reviewing and approving management representation letter before submission to the independent auditor.
- n. Ensuring that a transparent financial management system, supported by a Procedures and Policies Handbook that will be used by the entire organization is

established, to ensure the integrity of internal control activities throughout the Corporation.

- o. Elevating to international standards the accounting and auditing processes, practices and methodologies.
- p. Ensuring that actions and measures in case of finding of error or fraud in the financial statements and related disclosures are in place and followed.
- q. Reviewing unusual or complex transactions including all related party transactions.
- r. Communicating with legal counsel covering litigation, claims, contingencies or other significant legal issues that impact the financial statements.

Independent Audit

- s. Recommending the appointment, reappointment and removal of the Independent Auditors and the fixing of their remuneration to the Board. The Committee shall conduct an assessment of independence and professional qualifications and competence of the independent auditor and ensure that a rotation process is observed in the engagement of independent auditor.
- t. Reviewing and pre-approving the Independent Auditor's plans one (1) month before the conduct of external audit to understand the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.
- u. In this regard, the Committee shall discuss with the Independent Auditors, before the audit commences, the nature and scope of the audit, and ensure cooperation when more than one professional service firm is needed. In addition, the Committee shall review compliance of independent auditor with auditing standards.
- v. Monitoring the coordination of efforts between the independent and internal auditors.
- w. Ensuring that the Independent Auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required by their function.
- x. Reviewing the reports of the Independent Auditors and regulatory agencies, where applicable, and ensuring that management is taking appropriate corrective actions in a timely manner, including addressing control, governance and compliance issues.

- y. Conducting a separate meeting in executive session, with the Independent Auditors to discuss any matter that the Committee or Independent Auditors believe should be discussed privately, including the results of the audit, year-end financial statements, the quality of management, financial and accounting controls.
- z. Reviewing and approving the proportion of audit versus non-audit work both in relation to their significance to the Independent Auditor and in relation to the Corporation's year-end financial statements, and total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the Independent Auditor. The amount of both audit and non-audit work of Independent Auditors shall be disclosed in the annual report.
- aa. Ensuring that there is a process in place for understanding disagreements between the independent auditor and the Management of the Corporation.

The Internal Audit group of the Corporation shall support the Audit Committee in the rendition of its functions.

2.5 Board Risk Oversight Committee

There shall be a Board Risk Oversight Committee composed of three (3) members, and at least one (1) of whom shall be an independent Director. The independent Director shall chair the Risk Oversight Committee. Each member shall have an adequate understanding of the assessment and mitigation of risks faced by the Corporation and at least one member must have the relevant thorough knowledge and experience in risk and risk management. It shall have the following duties and responsibilities:

- a. Develop a formal enterprise risk management plan which contains the following information: (1) registry of risks, (2) well-defined risk management goals, objectives and oversight, (3) uniform processes of assessing risks and developing strategies to manage prioritized risks, (4) designing and implementing risk management strategies, and (5) continuing assessments to improve risk strategies, processes and measures.
- b. Review the adequacy of the Corporation's risk management framework, ensure that an overall set of risk management policies and procedures exist for the Corporation and oversee its implementation through the Risk Management Division.
- c. Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness, look for emerging or changing material exposures, and stay abreast of significant developments that seriously impact the likelihood of harm or loss;
- d. Advise the Board on its risk appetite and risk tolerance limits and review these limits at least annually, based on changes and developments in the business, the

regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation;

- e. Conduct discussions on the Company's prioritized and residual risk exposures based on regular risk management reports, review the results of the annual risk assessment done by the Chief Risk Officer (CRO), including the risks identified, their impact or potential impact on the Corporation and its subsidiaries and how they are addressing and managing these risks;
- f. Assess the probability of the occurrence of each identified risk and estimate the possible significant impact to the Corporation and its subsidiaries;
- g. Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation and evaluate the effectiveness of the risk mitigation strategies and action plans, with the assistance of the internal auditors. This includes ensuring that the Corporation maintains a framework for fraud prevention and detection (i.e. Whistleblower Program) and plans for business continuity (i.e. Business Continuity Plan)
- h. Meet periodically with Management to discuss the Committee's observations and evaluation on its risk management activities.
- i. Report to the Board, as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommend further action or plans, as necessary.

2.6 Related Party Transactions Review Committee

There shall be a Related Party Transactions (RPT) Review Committee consisting of three (3) Directors, entirely non-executive, all of whom shall be independent Directors. It shall have the following duties and responsibilities:

- a. Evaluate, on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified. RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related, and vice-versa) are captured.
- b. Evaluate material agreements of any kind with a related party and determine any potential reputational risk issues that may arise as a result of, or in connection with the transactions.
- c. Assist the Board in determining whether to approve, ratify, disapprove or reject an RPT.
- d. The Committee shall take into account whether the RPT is entered into on terms no less favorable to the Corporation than terms generally available to an unaffiliated third party under the same or similar circumstances and review all

information provided by Management, including all relevant facts and circumstances.

- e. For transaction involving sale of Corporation assets, review results of the appraisal, valuation methodology used as well as alternative approaches to valuation.
- f. Endorse material/significant RPTs to the Board for approval.
- g. Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs by Management, including periodic review of the Corporation's RPT Policy and procedures.
- h. Annually review the Committee's own performance.

2.7 Committee of Inspectors of Proxies and Ballots

The Board of Directors shall appoint three (3) persons (who need not be stockholders) to act as the Committee of Inspectors of Proxies and Ballots which shall be empowered to pass on the validity of proxies. The Committee shall be guided by existing laws, and rules and regulations of the Commission regarding proxies. The term of office of the Committee members shall be fixed by the Board of Directors. In the event of vacancy in the Committee membership, the Board of Directors may appoint another member to such vacancy.³¹ It shall have the following particular duties and responsibilities:

- a. At least five (5) working days prior to the date of the stockholders' meeting, the Committee shall perform the validation of the proxies submitted by stockholders. The Committee shall only consider proxies submitted not later than seven (7) working days prior to the date of the stockholders' meeting. The Committee shall prepare a summary of the valid and invalidated proxies to be submitted to the Office of the Corporate Secretary, together with the proxies.
- b. Validation, counting and tabulation of votes cast at the Corporation's stockholders' meeting.
- c. Perform such other duties and functions as may be delegated by the Board from time to time.

The Committee shall be guided by applicable laws, the By-Laws, and the rules and regulations of the SEC regarding proxies. (SEC Rule 20, Section 20 of the Securities Regulation Code)

³¹ By-Laws

2.8 Sustainability Committee

The Sustainability Committee shall be composed of at least three (3) members as determined by the Board. The Board shall designate the Chairman of the Committee. The Committee has to be composed in such a way that it possesses, as a group, the necessary knowledge, skills and experience required to properly perform its duties. The Committee shall regularly review its composition, taking into consideration the progressing standard of the Corporation, and best practices in sustainable development. As such, the Committee shall have the following duties and responsibilities:

- a. Provide oversight, identify and assesses significant social, ethical and environmental interdependencies that might impact on the long-term business objective of the Corporation to be recognized as a responsible and sustainable Corporation in the property sector;
- b. Guide policy-making in the Corporation's sustainability program, and ensure full Corporation support and alignment with the Ayala Group of Companies' commitment to sustainable development;
- c. Regularly monitor new and innovative technologies, processes and practices that will permit the Corporation to attain sustainable growth;
- d. Regularly review both current and proposed partnerships and relationships with stakeholders that support the Corporation's sustainable growth;
- e. Regularly evaluate the Corporation's communication and marketing strategies related to sustainable growth;
- f. Review the sustainability-related content of the Corporation's annual report prior to its issuance;

Article III

MANAGEMENT

1. General Responsibilities of Management

Management stands as the locus of decision-making for the day-to-day affairs of the Corporation. It determines the Corporation's activities by putting the Corporation's targets in concrete terms and by formulating the basic strategies for achieving these targets.³² It also puts in place the infrastructure for the Corporation's success by establishing the following mechanisms in its organization: i) purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Corporation; 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 the business goals of the Corporation; iv) a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Corporation.

Management is primarily accountable to the Board for the operations of the Corporation. As part of its accountability, it is also obligated to provide the Board with complete, adequate information on the operations and affairs of the Corporation in a timely manner.³³

2. Executive Officers of the Corporation

The Executive Officers of the Corporation are the Chairman, Vice-Chairman, the President and Chief Executive Officer, the Chief Finance Officer and/or Treasurer, and the Corporate Secretary. The Executive Officers shall be appointed by the Board of Directors.³⁴

In addition, the Board of Directors shall appoint (from time to time) one or more Senior Vice Presidents and Vice Presidents, a Comptroller and such other officers, agents and employees as provided for in the Corporation's By-Laws.³⁵

The Board of Directors may, in its discretion and in accordance with the By-Laws, elect a Vice-Chairman of the Board from among its members.

3. Roles of the Executive Officers of the Corporation

The roles of the Chairman and the Chief Executive Officer ("CEO") may be separate to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent

³² Berlin Initiative German Code of Corporate Governance

³³ SEC Memorandum Circular No. 2, series of 2002.

³⁴ By-Laws, Article IV, Section 7(d).

³⁵ By-Laws, Article IV, Section 7(d).

decision-making. The Corporation shall disclose the relationship between the Chairman and the CEO, if any, in its annual report to the Commission.

3.1 Chairman of the Board

The Chairman of the Board, shall, when present, preside at all meetings of the Board and shall render advice and counsel to the President. He shall –

- a. schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Corporation's operations;
- b. prepare the meeting agenda in consultation with the CEO;
- c. exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
- d. assist in ensuring compliance with the Corporation's guidelines on corporate governance.³⁶

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

3.2 Vice-Chairman

In the absence of the Chairman of the Board, the Vice-Chairman shall preside at meetings of the Board.

3.3 President and Chief Executive Officer

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

- a. have general supervision of the business, affairs, and property of the Corporation, and over its employees and officers;
- b. see that all orders and resolutions of the Board of Directors are carried into effect;
- c. 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 Corporation for the preceding year, and the state of its affairs;

³⁶ SEC Memorandum Circular No.2, series of 2002.

- d. report to the Board from time to time all matters within its knowledge which the interest of the Corporation may require to be brought to their notice.

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

3.4 The Chief Finance Officer (CFO)

The Chief Finance Officer shall be the appointed by the Board of Directors. The CFO who may also be the Treasurer of the Corporation shall be responsible for the following:

1. provide management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals;
2. maintain the integrity of accounting records as the basis of financial statements and reports provided to management for decision-making and to government regulatory bodies in compliance with statutory requirements;
3. promote investor confidence in the Corporation by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to various entities are complied with;
4. strengthen internal controls by monitoring compliance with policies; recommend to management appropriate actions and changes in systems and procedures as necessitated by circumstances.

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

3.5 The Treasurer

The Treasurer of the Corporation shall have charge of the funds, securities, receipts and disbursements of the Corporation. He shall have the following functions:

- a. deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as the Board may from time to time designate;
- b. regularly and at least every semester render to the President or to the Board an account of the fund condition of the Corporation and of all his transactions as such;
- c. ensure funds availability on a timely basis and at the most economical means;
- d. optimize yields in temporary excess funds;

- e. provide relevant and timely capital market information;
- f. 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.

3.6 The Corporate Secretary

The Corporate Secretary shall be a resident and citizen of the Philippines. He is an officer of the Corporation and his loyalty to the mission, vision and specific business objectives of the Corporation comes with his duties. Considering his varied functions and responsibilities, he must possess organizational and interpersonal skills, and the legal skills of a Chief legal officer. He must also have some financial and accounting knowledge.³⁷ The Corporate Secretary shall have the following functions:³⁸

- a. serve as an adviser to the Directors on their responsibilities and obligations;
- b. keep the minutes of meetings of the stockholders, the Board of Directors, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;
- c. work fairly and objectively with the Board, Management, stockholders and other stakeholders;
- d. keep in safe custody the seal of the Corporation and affix it to any instrument requiring the same;
- e. have charge of the stock certificate book and such other books and papers as the Board may direct;
- f. attend to the giving and serving of notices of Board and shareholder meetings;
- g. be fully informed and be part of the scheduling process of other activities of the Board;
- h. prepare an annual schedule of board meetings and the regular agendas of meetings, and put the Board on notice of such agenda at every meeting;
- i. oversee the adequate flow of information to the Board prior to meetings;
- j. ensure fulfillment of disclosure requirements to the Securities and Exchange Commission and the Philippine Stock Exchange.

³⁷ SEC Memorandum Circular No. 2, series of 2002.

³⁸By-Laws, Article IV, Section 14; SEC Memorandum Circular No. 2, series of 2002; SEC Model.

The Corporate Secretary shall have such other responsibilities as the Board of Directors may impose upon him. The Board shall have separate and independent access to the Corporate Secretary.

Article IV

GOVERNANCE POLICY ON CONFLICT OF INTEREST

The personal interest of Directors and officers should never prevail over the interest of the Corporation. 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 Corporation. They must promote the common interest of all shareholders and the Corporation without regard to their own personal and selfish interests.³⁹

- a. A conflict of interest exists when a Director or an officer of the Corporation—
 - i. Supplies or is attempting or applying to supply goods or services to the Corporation;
 - ii. Supplies or is attempting to supply goods, services or information to an entity in competition with the Corporation;
 - iii. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to the Corporation;
 - iv. Is offered or receives consideration for delivering the Corporation's business to a third party;
 - v. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interests of the Corporation.
- 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 nature should either resign or, if the Board deems appropriate, be removed from the Board.
- c. A contract of the Corporation with one or more of its Directors or officers is voidable, at the option of the Corporation, unless all the following conditions are present:⁴⁰
 - 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.

³⁹ Canlas' Handbook on Stock, Stockholders and Directors

⁴⁰ Corporation Code, Section 32

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 involved 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 Corporation, thereby obtaining profits to the prejudice of the Corporation, the Director must account to the latter for all such profits by refunding the same, unless his act has been ratified by a vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock. This provision shall be applicable notwithstanding the fact that the Director risked his own funds in the venture.⁴¹
- e. The foregoing is without prejudice to the Corporation's existing Code of Conduct and Ethics for its officers, employees and staff.

⁴¹ Corporation Code, Section 34

Article V

AUDIT AND COMPLIANCE

1. Internal Audit

- a. The Internal Audit Group shall provide independent and objective assurance and advisory services to the Corporation designed to add value and improve on the organization's operations. It shall provide the Board, Management and the stockholders and other stakeholders 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. It shall also provide the Board, Management and the stockholders and other stakeholders with reasonable assurance that the Corporation's key organizational and procedural controls are effective, appropriate, and complied with. It shall review, audit and report on, among others, the effectiveness of the system of organizational controls, taking into account the nature and complexity of the business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.
- b. It shall perform its auditing functions faithfully by maintaining independence from the Management and controlling shareholders.
- c. The Internal Audit Group shall be headed by a Chief Audit Executive. The Chief Audit Executive shall preferably be a Certified Public Accountant and/or a Certified Internal Auditor and shall report to the Audit Committee of the Board of Directors.
- d. The Internal Auditors shall report that their activities are conducted in accordance with the Standards for the Professional Practice of Internal Auditing. Otherwise, the Chief Audit Executive shall disclose to the Board and Management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.⁴²

2. External Audit

- a. The Board, through the Audit Committee, shall recommend to the stockholders a duly accredited external auditor who shall undertake an independent audit and shall provide an objective assurance on the way in which the financial statements shall have been prepared and presented.

⁴² SEC Memorandum Circular No. 2, series of 2002 except for the requirement of being a CPA.

- b. The External Auditor shall –
 - i. perform fair audits independently from the Corporation, its management and controlling shareholders, so that shareholders and other users may maintain confidence in the Corporation's accounting information;
 - ii. check whether any fact conflicts with the audit results in the information disclosed regularly with the audited financial statements, and demand correction, if necessary;
 - iii. attend the annual stockholders meeting and answer any questions on audit reports and on themselves, their work and their remuneration;
 - iv. perform such other functions as may be approved by the Board in its engagement of the auditor *provided, however*, that non-audit work shall not be in conflict with the functions of the auditor as external auditor.
- c. The External Auditor shall be required to stipulate its duties and responsibilities to the Corporation.⁴³
- d. The External Auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.
- e. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of the former auditor, would have caused making reference to the subject matter of the disagreement in connection with its report.
- f. If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall also present his views in said reports.⁴⁴

3. Compliance System

To insure adherence to corporate principles and best practices, the Chairman of the Board shall designate a Compliance Officer who shall hold the position of a Vice President or its equivalent.

The Compliance Officer shall perform the following duties:

- a. Operationalize this Manual, and monitor compliance with the provisions and requirements of this Manual;

⁴³As suggested by the Audit and Risk Committee and approved by the Board.

⁴⁴ SEC Memorandum Circular No. 2, series of 2002.

- b. Appear before the Securities and Exchange Commission upon summon on similar matters that need to be clarified by the same;
- c. Determine violation/s of the Manual and recommend to the Board for its further review and approval the penalty for the violation/s found and the adoption of measures to prevent a repetition of the violation/s;
- d. Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year, explaining the reason/s of the latter's deviation from the same; and
- e. Provide the Commission at the end of every fiscal year with a sworn certification that the requirement for independent Directors and their attendance at meetings in accordance with Sec. II (7) of SEC Memorandum Circular No. 2 has been complied with. The said certification may be submitted with the Corporation's current report (SEC Form 17-1) or on a separate filing;
- f. Identify, monitor and control compliance risks;
- g. Determine violations of this Manual and create a system for according due notice, hearing, and due process for dealing with violations of the Manual;
- h. Recommend the penalties for violations of the Manual, for further review and approval of the Board.

The appointment of the Compliance Officer shall be immediately disclosed to the Securities and Exchange Commission on SEC Form 17-C. All correspondence relative to his functions as such shall be addressed to said Officer.⁴⁵

⁴⁵SEC Model: SEC Memorandum Circular No. 2, series of 2002.

Article VI

COMMUNICATION AND INFORMATION

1. Management's Responsibility for Information

Management is primarily responsible to the Board for financial reporting and control, and to this extent, shall:

- a. Present a balanced and understandable assessment of the Corporation's position and prospects. This extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements;
- b. Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;
- c. Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;
- d. Maintain a sound system of internal control to safeguard stockholders' investment and the Corporation's assets;
- e. Based on the approved audit plans, scope and frequency of audits, ensure that internal audit examinations cover, at least, the evaluation of adequacy and effectiveness of controls encompassing the organization's governance, operations, information systems, to include reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations, and contracts;
- f. Require the Chief Audit Executive to render to the Audit Committee an annual report on the internal audit department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit Committee of the Board. Such annual report should include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Board and senior management.

Management shall be primarily responsible for the adequate flow of information to the Board. This information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure statements and documents, budgets, forecasts and monthly internal financial statements. Any variance between projections and actual results should also be disclosed and explained by Management to the Board.

Management, through the Investor Relations function, shall be responsible for publicly and timely disclosure of all material information about the Corporation which could adversely affect its viability or the interest of its stockholders and other stakeholders. 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, including non-financial information, with emphasis on the management of economic, environment, social and governance issues of the business, which underpin sustainability. 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.

2. The Investor Relations Function

There shall be an Investor Relations Division within the Corporation, which shall be tasked with --

- a. Creation and implementation of an investor relations program that reaches out to all shareholders and fully informs them of corporate activities;
- b. Formulation of a clear policy on communicating or relating relevant information to Corporation stockholders and to the broader investor community accurately, effectively and sufficiently;
- c. Preparation of disclosure documents to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange, and
- d. Dissemination of this Manual, and the conduct of an orientation program for the Board and Management.

The Investor Relations Division shall report to the Chief Finance Officer.

3. Communication of this Manual

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

ARTICLE VII

STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTERESTS⁴⁶

1. Shareholder Rights

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

1.1 Voting Right

All stockholders have the right to vote on the election, removal and replacement of Directors and vote on certain corporate acts in accordance with the Corporation Code.

Cumulative voting shall be used in the election of Directors. Directors may be removed with or without cause, but Directors shall not be removed without cause if it will deny minority shareholders representation in the Board. Removal of Directors requires an affirmative vote of two-thirds (2/3) of the outstanding capital of the Corporation.

Any stockholder may nominate candidates for election to the Board of Directors by sending a nomination letter to the Nomination Committee within the relevant deadline as may be approved by the Board and disclosed pursuant to the rules of the Philippine Stock Exchange. All nominations will be reviewed and deliberated upon by the Nomination Committee prior to indorsing the qualified candidates for ratification and approval by the Board.

1.2 Pre-emptive Right

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

1.3 Right of Inspection

Shareholders shall be allowed to inspect corporate books and records including minutes of Board meeting and stock registries in accordance with the Corporation Code and shall be provided an annual report, including financial statements, without cost or restrictions.

⁴⁶SEC Memorandum Circular No. 2, series of 2002.

1.4 Right to Information

The Shareholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the Directors and officers and certain other matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among Directors and key officers, and the aggregate compensation of Directors and officers.

The Information Statement/Proxy Statement where these are stated must be distributed to the shareholders before annual general meetings and in the Registration Statement and Prospectus in case of registration of shares for public offering with the Commission.

The minority shareholders shall have the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

In accordance with existing law and jurisprudence, minority shareholders shall have access to any and all information relating to matters for which the Management is accountable for and to those relating to matters for which the management should include such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of stockholders' meeting provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access.

The notice of the Annual and Special Shareholders' Meeting with sufficient and relevant information shall be sent at least 28 days prior to the meeting.

1.5 Right to Dividends

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

1.6 Appraisal Right

In accordance with the Corporation Code, shareholders may exercise appraisal rights under the following circumstances:

- i. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

- ii. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and
- iii. In case of merger or consolidation.

1.7 Alternative Dispute Mechanism for Intra-Corporate Dispute

The Corporation adopts the rules and procedures set forth under Republic Act No. 9285, otherwise known as the Alternative Dispute Resolution Act of 2004, as an alternative means to settle disputes with a view towards preventing excessive litigation.

2. Duty of Directors to promote shareholders' rights

It is the duty of the Directors to promote shareholders' rights, remove impediments to the exercise of shareholders' rights and recognize lawful mechanisms to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms.

They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The Directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

ARTICLE VIII

PENALTIES FOR NON-COMPLIANCE WITH THIS MANUAL

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed after notice and hearing, on the Corporation's Directors, officers, staff, in case of violation of any of the provisions of this Manual:

1. In case of first violation, the subject person shall be reprimanded;
2. In case of second violation, suspension from office shall be imposed. The duration shall be at the reasonable discretion of the Board, depending on the gravity of the violation;
3. For third violation, removal from office. The commission of a third violation of this Manual by any member of the Board shall be a sufficient cause for removal from Directorship.

ARTICLE IX

REVIEW AND AMENDMENT OF MANUAL

1. The provisions of this Manual and the enforcement thereof shall be subject to quarterly review unless otherwise stated by the Board.
2. All business processes and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to the compliant state.
3. This Manual is subject to review and amendment to take into account the Corporation's changing needs, factual conditions prevailing in the environment and regulatory requirements.

ARTICLE X

ADOPTION AND EFFECTIVITY OF REVISED MANUAL

This Manual was first adopted by the Board of Directors of the Corporation on August 26, 2002 and was made effective on January 01, 2003.

Amendments to comply with regulatory issuances of the Securities and Exchange Commission shall be deemed adopted and effective upon effectivity of the relevant regulatory issuance.

SIGNATURES

Fernando Zobel de Ayala
Chairman of the Board



Augusto Cesar D Bengzon
Chief Finance Officer, Treasurer,
Chief Information Officer and Chief
Compliance Officer