August 11, 2016

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills, Mandaluyong City, Philippines

Attention: MR. VICENTE GRACIANO P. FELIZMENIO, JR.
Director, Markets and Securities Regulation Department

PHILIPPINE STOCK EXCHANGE, INC.
Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, Philippines

Attention: MR. JOSE VALERIANO B. ZUÑO III
OIC – Head, Disclosure Department

Subject: Updates and Amendments to the Annual Corporate Governance Report
Revisions to the Manual of Corporate Governance

Gentlemen:

Please be advised of the amendments to the Manual of Corporate Governance. The amendment was approved by the Board of Directors of Manila Water Company, Inc. in its meeting held on August 11, 2016.

The amendments to the Manual include the transfer of the risk oversight function from the Audit and Governance Committee to the Risk Committee and the inclusion of Risk Committee and the Related Party Transactions Committee in the Board committees enumerated in the Manual.

Copy of the revised Manual is attached for your reference.

Very truly yours,

[Signature]

JHOEL P. RAQUEDAN
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Assistant Corporate Secretary

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MANILA WATER COMPANY, INC.

CORPORATE GOVERNANCE MANUAL
PREAMBLE

The Manila Water Company, Inc. (“Manila Water” or the “Company”) is committed to providing the highest quality of service to all its customers within the East Zone of Metro Manila and beyond. In the process of delivering its services, the Company consciously and continuously seeks to improve the well-being of every community it serves, as well as that of the natural environment in which it operates.

As the Company moves towards the accomplishment of its corporate goals and ultimately to create and sustain increased value for all its shareholders, the Board of Directors (the “Board”), the management, officers and employees of Manila Water believe that sound and effective corporate governance is fundamental to the Company’s continued success and long-term existence.

This Manual of Corporate Governance (hereinafter the “Manual”) recognizes and safeguards the rights of every shareholder. It promotes shareholders’ rights, particularly the rights to information and to participate in the governance process. It supplements and complements the Articles of Incorporation and By-Laws of the Company, which principally contain the basic structure of governance.

The rationale of this Manual is to improve, systematize, and make transparent the governance of Manila Water, and demonstrate its commitment to good governance, by developing and furthering:

- Responsible, accountable, and value-based performance management;
- Effective oversight, with Board Committees that act in the best interests of the Company and its stakeholders, including minority shareholders, and seek to enhance shareholder value in a sustainable manner; and
• Adequate information disclosure and transparency, as well as effective system of risk management and internal control.

The members of the Board, the management, and employees understand this Manual as their joint obligation and obligate themselves to ensure that its provisions are fully implemented.

CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance is the framework of rules, systems and processes in the Company that governs the performance of the Board and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates.

The Company’s corporate governance framework is based on the following principles:

- **Accountability** - This Manual establishes the Company’s accountability to all its shareholders and guides the Board in setting strategies and monitoring the Company’s management.

- **Fairness** - The Company obligates itself to safeguard shareholder rights and ensure the fair treatment of all shareholders, including minority shareholders.

- **Transparency** - The Company ensures that timely and accurate disclosures are made on all material matters, including the financial situation, performance, ownership, and governance, in a manner easily accessible to the public and all interested parties.

- **Sustainability** - The Company believes that its business goals are intertwined with the well-being of the communities that it serves, and that of the natural environment that supports its resources. It recognizes the value of working with all its stakeholders in order to achieve its social, environmental and business objectives.
ARTICLE I
GOVERNANCE

1. The Board of Directors

It is the Board’s responsibility 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 best interests of its stockholders and other stakeholders.

The Board oversees the management of the Company and provides directions towards the formulation of a sound corporate strategy. In the exercise of their duties, the members of the Board must exercise their best and unbiased judgment in the utmost interests of the Company. The Board is the guardian of fairness, transparency, and accountability in all of the major financial and business dealings of the Company, protecting the interests of investors and stakeholders.

1.1 Composition

The Board of Directors shall have eleven (11) members who shall be elected by the Company’s stockholders entitled to vote 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 Company.

The Company shall have a minimum of two (2) independent directors or at least 20% of the members of the Board, at least one of whom shall serve in the Audit and Governance Committee. The independent directors shall be identified in the annual report.
1.2 Qualifications

A director of the Company shall have the following qualifications:

a) Ownership of at least one (1) share of the capital stock of the Company;

b) At least twenty-one (21) years of age;

c) A college degree or its equivalent or adequate competence and understanding of the fundamentals of doing business or sufficient experience and competence in managing a business to substitute for such formal education;

d) Possesses integrity, probity and shall be diligent and assiduous in the performance of his functions.

e) Other relevant qualifications, such as membership in good standing in business, professional organizations or relevant industry.

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

1.3 Disqualifications

The following persons are disqualified from being a director of the Company:

a) Any person who has been finally convicted by a competent judicial or administrative body of the following: (i) any crime involving the purchase or sale of securities as defined in the Securities Regulation Code (“SRC”), e.g. proprietary or non-proprietary membership certificate, commodity futures contract, or interest in a common trust fund, pre-need plan, pension plan or life plan; (ii) any crime arising out of the person’s conduct as an underwriter, broker, dealer, investment corporation, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or, (iii) any crime arising out of his fiduciary relationship with a bank,
quasi-bank, trust company, investment house or as an affiliated person of any of them;

b) Any person who, by reason of any misconduct, after hearing or trial, is permanently or temporarily enjoined by order, judgment or decree of the SEC 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 or an affiliated person of any of them; (iii) engaging in or continuing any conduct or practice in connection with any such activity or willfully violating laws governing securities, and banking activities. Such disqualification shall also apply when such person is currently subject to an effective order of the SEC or any court or other administrative body refusing, revoking or suspending any registration, license or permit issued under the Corporation Code, SRC, or any other law administered by the SEC or Bangko Sentral ng Pilipinas (“BSP”), or under any rule or regulation promulgated by the SEC or BSP, or otherwise restrained to engage in any activity involving securities and banking. Such person is also disqualified when he is currently subject to an effective order of a self-regulatory organization suspending or expelling him from membership or participation or from association with a member or participant of the organization;

c) Any person finally convicted judicially or administratively of an offense involving moral turpitude or fraudulent acts or transgressions such as, but not limited to, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation or perjury;
d) Any person finally found by the SEC or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the SRC, the Corporation Code of the Philippines, or any other law administered by the SEC, or any rule, regulation or order of the SEC or the BSP;

e) Any person judicially declared to be insolvent;

f) Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct listed in the foregoing paragraphs;

g) Any person convicted by final and executory judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment; and,

h) 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 Company. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged --

h.1) 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 Company owns at least 30% of the capital stock) engaged in a business which the Board, by at least three-fourths (3/4) vote, determines to be competitive or antagonistic to that of the Company, or
h.2) If he is an officer, manager or controlling person, 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 Company, or when in the judgment of the Board, by at least three-fourths (3/4) vote, deems that the laws against combinations in restraint of trade shall be violated by such person’s membership in the Board of Directors; or

h.3) 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.1) or (h.2).

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.

1.4 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 well as refusal to comply with all other disclosure requirements under the SRC and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists.

b) Absence or non-participation in more than fifty percent (50%) of all meetings, both regular and special, of the Board during his incumbency, or any twelve (12) month period during said incumbency unless such absence was due to illness,
death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election.

c) Dismissal/termination from directorship in another listed company for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity.

d) Being under preventive suspension by the Company for any reason.

e) Conviction that has not yet become final referred to in the grounds for disqualification of directors.

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

A director shall have sixty (60) days upon the occurrence of any ground for temporary disqualification to remedy or correct the same otherwise, the disqualification shall become permanent.

1.5 Independent Directors

Independent directors shall hold no interests or relationships with the Company that may hinder their independence from the Company or its management, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. An independent director shall, within thirty (30) days from his election or appointment, including any re-election or re-appointment, submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with the Company, its management or controlling shareholder.
a) Officers, executives and employees of the Company 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, employee or consultant of the Company, the Company shall forthwith cease to consider him as an independent director.

c) If the beneficial ownership of an independent director in the Company or its related corporations shall exceed 2% of the subscribed capital stock of such corporation, the Company shall forthwith cease to consider him as an independent director. However, should the independent director take the appropriate action to remedy or correct the disqualification within sixty (60) days from the occurrence of the ground he may still be considered an independent director.

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

1.6 Policy on Multiple Board Seats

a) A director shall exercise due discretion in accepting and holding directorships outside of the Company. A director may hold any number of directorships outside of the Company provided that these other positions do not detract from the director’s capacity to diligently perform his duties as a director of the Company.
1.7 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.

b) The Board may, to promote transparency, require the presence of at least one independent director in all its meetings. However, the absence of an independent director shall not affect the quorum requirements if he is duly notified of the meeting but notwithstanding such notice fails to attend.

1.8 General Responsibilities of the Board for Good Governance

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

c) Compliance with the principles of good governance shall start with the Board. It shall be the Board’s responsibility to foster the long-term success of the Company 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 Company, its shareholders and other stakeholders.

c) To ensure good governance of the Company, the Board should establish the vision and mission and strategic objectives and key policies and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating Management’s performance.
d) To the extent set forth above, the Board shall orient all its activities towards three general guidelines:

   d.1) 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 Company’s constitutive documents.

   d.2) All actions taken by the Board are subject to the principle of economic usefulness. They should accordingly contribute to increasing the value of the Company in a sustainable manner.

   d.3) The Board should, when carrying out its duties, be aware of its duty as the governing body of a publicly listed company.

   e) 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 to:

   e.1) Ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system;

   e.2) Reviewing conflict-of-interest situations and providing appropriate remedial measures for the same;

   e.3) Defining the duties and responsibilities of the President who shall be ultimately accountable for the Company’s organizational and operational controls; and appointing a President with the appropriate ability, integrity, and experience to fill the role;

   e.4) Evaluation of proposed senior management appointments;

   e.5) Ensuring the selection, appointment and retention of qualified and competent management; reviewing the Company’s personnel and human
resources policies, compensation plan and the management succession plan;
e.6) Institutionalizing the internal audit and enterprise risk management functions;
e.7) Ensuring the presence of, and regularly reviewing, the performance and quality of external audit.

1.9 Specific Duties of the Board of Directors

The Board shall exert its best effort to ensure a high standard of best practice for the Company, its shareholders and stakeholders. To do so, it shall perform all the functions which it is required to perform in the Company’s By-Laws, including those enumerated below, with honesty and integrity.

a) Implement a process for the selection of directors who can contribute independent judgment in the formulation and amendment of corporate strategies and policies;

b) Appointment of competent, honest, professional and highly motivated President and other management officers;

c) Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings shall be minuted;

d) Constitute an Audit and Governance Committee and such other Committees as may be necessary to assist the Board in discharging its functions;
e) Adopt a professional development program for employees and officers, and succession planning for senior management and key positions in the Company;

f) Provide strategic policies and guidelines to the Company on major capital expenditures and key investments. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies;

g) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations and ensure that the Company complies with all relevant laws, regulations and, as far as possible, best business practices;

h) Formulate a clear communication and disclosure strategy to promptly and regularly communicate with the SEC, the Philippine Stock Exchange (“PSE”) and the Company’s shareholders and other stakeholders on matters of importance;

i) Identify the stakeholders in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them;

j) Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. Such systems shall be continuously and regularly reviewed and updated to ensure adequacy and effectiveness;

k) Identify and monitor, and endeavor to provide appropriate technology and systems for the identification and monitoring of key risks and key performance areas. The Board should continuously monitor these factors, with due diligence,
to enable the Company to anticipate and prepare for possible threats to its operational and financial viability;

I) The Board is primarily responsible to the stockholders for financial reporting and control, and should ensure that:

I.1) All stockholders are provided with relevant and timely information about the Company, including but not limited to a semestral report and an annual report of the Company’s performance, position and prospects through publicly available reports submitted to the SEC;

I.2) A balanced and understandable assessment of the Company’s position and prospects is presented. 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;

I.3) Their responsibility for preparing the accounts is explained and there should be a statement by the auditors about reporting responsibilities;

I.4) The business as a going concern is reported, with supporting assumptions or qualifications, if necessary;

I.5) Sound system of internal control to safeguard stakeholders’ investment and the Company’s assets is presented;

I.6) Based on the approved audit plans, scope and frequency of audits, 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;

I.7) The Chief Audit Executive renders to the Audit and Governance 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 and Governance 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;

m) Adopt and implement policies and procedures that will ensure the integrity and transparency of related party transactions between and among the Company and its parent company, joint ventures, subsidiaries, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board;

n) Recommend to the stockholders the appointment of external auditors, in accordance with the recommendation of the Audit and Governance Committee;

o) 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 Company’s expense, which expense shall be reasonable;

p) Establish and maintain an alternative dispute resolution system in the Company that can amicably settle conflicts or differences between the Company and its stockholders, and the Company and third parties, including regulatory authorities, without prejudice to the Company’s ability to avail of its legal rights to address or resolve conflicts or differences with such parties in the proper venue as it deems appropriate or warranted.
1.10 Specific Responsibilities of each Director

The Company’s directors shall act in good faith, with due care and in the best interests of the Company and all its shareholders, including minority shareholders, based on all relevant information. Each director is expected to attend board meetings and applicable committee meetings. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties.

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

a) *Conduct fair business transactions with the Company 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.

b) *Devote time and attention necessary to properly discharge his duties and responsibilities.* A director should devote sufficient time to familiarize himself with the Company’s business. He should be constantly aware of and knowledgeable with the Company’s operations to enable him to meaningfully contribute to the Board’s work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.

c) *Act judiciously.* Before deciding on any matter brought before the Board of Directors, every director should carefully evaluate the issues, ask questions and seek clarifications as appropriate.
d) *Exercise independent judgment.* A director should view each problem/situation objectively. If a disagreement with other directors arises, he should carefully evaluate and explain his position regardless of such position’s unpopularity. Corollarily, he should support plans and ideas which he believes are beneficial to the Company.

e) *Have a working knowledge of the statutory and regulatory requirements affecting the Company, including its articles of incorporation and by-laws, the rules and regulations of the SEC and, where applicable, the requirements of relevant regulatory agencies.* The director should also keep abreast with industry developments and business trends in order to promote the Company’s competitiveness and sustained progress.

f) *Observe confidentiality.* A director shall keep secure and confidential all non-public information acquired or learned by reason of his position as a director. He should not reveal any confidential information to unauthorized persons without the authority of the Board.

g) *Ensure the continuing soundness, effectiveness and adequacy of the Company’s control environment.* Each director is responsible for assuring that actions taken by the Board maintain the adequacy of the control environment within the Company.

h) *Prior to assuming office, attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institution.* If necessary, funds shall be allocated by the Company for this purpose.
1.11 Liability of Directors

Directors who willfully and knowingly vote or consent to patently unlawful acts of the Company or who are guilty of gross negligence or bad faith in directing the affairs of the Company 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 there from suffered by the Company, its stockholders and other persons.

When a director attempts to acquire or acquires, in violation of his duty, any interest adverse to the Company 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 Company and must account for the profits which otherwise would have accrued to the Company.

1.12 Compensation and Liability Insurance Coverage of Directors

a) The Board of Directors shall determine a level of remuneration for Directors that shall be sufficient to attract and retain directors and compensate them for attendance at meetings of the Board and Board Committees, and performance of numerous responsibilities and undertaking certain risks as a Board member. The compensation which may be in the form of cash remuneration and/or stock option plans shall be fixed by way of a resolution of the Board of Directors. The Board of Directors may provide that only non-executive directors shall be entitled to such compensation.

b) From the effective date of this Manual, no director shall be involved in deciding his own remuneration during his incumbent term.
c) The Company, 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.

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 Company and to aid in good governance. The Board shall be supported by the following committees, which are required to report to the Board a summary of the actions taken:

2.1 Executive Committee

a) The Board shall appoint from among its members an Executive Committee composed of not less than five (5) members, a majority of whom shall be citizens of the Philippines, and shall designate one of such members as Chairman of the Executive Committee.

b) 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 Company’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.

c) The attendance of at least four (4) 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 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 at the meeting thereof following such action and shall be subject to revision or alteration by the Board, provided that no rights or acts of third parties shall be affected by any such revision or alteration.

2.2 Audit and Governance Committee

a) There shall be an Audit and Governance Committee composed of four (4) members, and at least one of whom shall be an independent director. The independent director shall chair the Audit and Governance Committee. Each member shall have an adequate understanding of accounting and auditing principles in general and of the Company's financial management systems and environment in particular.

b) The Audit and Governance Committee is expected, through the provision of checks and balances, to bring positive results in supervising and supporting the management of the Company. It shall be responsible for ensuring the development of, compliance with, and periodic review of corporate governance policies and practices in the Company.
It shall have the following particular duties and responsibilities:

i. assist the Board in its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;

ii. check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements;

iii. perform oversight financial management functions specifically in the areas of managing credit, market and liquidity;

iv. be responsible for setting up an internal audit department and consider the appointment of the Chief Audit Executive; establish and identify the reporting line of the Chief Audit Executive so that the reporting levels allow the internal audit activity to fulfill its responsibilities;

v. ensure that internal auditors have free and full access to all the Company’s records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results;

vi. provide oversight of the Company’s internal and external auditors; ensure that the internal and external auditors act independently from each other; and ensure that the external auditor is given unrestricted access to all records, properties and personnel to enable it to perform its audit function;
vii. review internal audit plans, including audit scope, resources and budget necessary to implement it, to ensure its conformity with the objectives of the Company;

viii. discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure cooperation where more than one audit firm is needed in order to secure proper coverage and minimize duplication of efforts;

ix. monitor and evaluate the adequacy and effectiveness of the Company’s internal control system, including financial reporting control and information technology security;

x. ensure that accounting system of the Company adheres to internationally accepted financial reporting standards and that auditing processes, practices and methodologies are compliant with generally accepted audit standards and practices.

xi. develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Company through a procedures and policies handbook that will be used by the entire organization;

xii. receive and review reports of internal and external auditors and regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies;
xiii. establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. The internal auditor shall functionally report directly to the Audit and Governance Committee which committee shall ensure the internal auditor’s independence and freedom from interference by outside parties;

xiv. review 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, and compliance with tax, legal, stock exchange and other regulatory requirements;

xv. recommend and review the appointment of external auditors and their remuneration;

xvi. coordinate, monitor and facilitate compliance with laws, rules and regulations;

xvii. evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company’s overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Company’s annual report;
xviii. conduct a yearly self-evaluation of the directors and executive officers and report the results of the same to the Board. Independent consultants may also be invited to assist the Committee in the process.

xix. develop and recommend to the Board corporate governance principles applicable to the Company.

xx. monitor and assess the Company’s compliance with rules and regulations relating to corporate governance policies.

The Internal Audit group and the Office of the Compliance Officer of the Company shall support the Audit and Governance Committee in the rendition of its functions.

2.3 Nomination Committee

The Nomination Committee shall be composed of at least three (3) members including one (1) independent director. The Committee shall have the following functions:

a) install and maintain a process to ensure that all directors to be nominated for election at the next Annual General Stockholders’ Meeting have the qualifications and none of the disqualifications stated above;

b) encourage the selection of a mix of competent directors, each of whom can add value and create independent judgment as to the formulation of sound corporate strategies and policies;

c) review and evaluate the qualifications of all persons nominated to positions in the Company which require appointment by the Board.
2.4 Committee of Inspectors of Ballots and Proxies

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

2.5 Remuneration Committee

The Remuneration Committee shall be composed of at least three (3) members and Chaired by an independent director.

The Committee shall have the following functions:

i. establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company’s culture, strategy and the business environment in which it operates;

ii. determine and approve all matters relating to the remuneration and benefits of the Board and the Company’s key officers;

iii. evaluate and recommend for Board approval the pertinent guidelines on executive compensation, including non-monetary remuneration;

iv. periodically review and evaluate the policy on remuneration in order that it be in a sufficient level to attract and retain directors and key officers of the Company;

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1 Formerly, the Proxy Validation Committee
v. Disallow any director to decide his own remuneration during his incumbent term;

vi. provide in the Company’s Required Reportorial Requirements, a clear, concise and understandable disclosure of all compensation that may be paid to its directors and key officers during the preceding fiscal year;

vii. review the existing employee handbook to strengthen provisions on conflict of interest, compensation and benefit policies, promotion and career advancement and compliance with all regulatory policies.

2.6 Risk Committee

In line with best corporate governance practices and to ensure effective management of strategic, operational, financial and compliance-related risks, the Board of Directors of the Company created the Risk Committee to provide assistance in fulfilling the Board’s oversight responsibilities in relation to risk governance in the Company.

The Committee shall be comprised of at least four (4) members of the Board, majority of whom shall be independent directors of the Company. The Board shall designate one member, who must be an independent director, to serve as the Committee Chairman.

The Board shall appoint the Committee members at its annual organizational meeting. Membership shall be reviewed annually, subject to the approval of the Board.

The Committee shall have the following authority, roles and responsibilities:

i. Promote an open discussion regarding risks faced by the Company, as well as risks faced by its subsidiaries that may have potential impact on
the Company’ operations, and ensure that risk awareness culture is pervasive throughout the organization.

ii. **Ensure that an overall set of risk management policies and procedures exist for the Company.**

iii. **Review the Company’s risk governance structure and the adequacy of the Company’s risk management framework / process.**

iv. **Review and endorse to the Board changes or amendments to the Enterprise Risk Management (ERM) Policy.**

v. **Perform oversight functions specifically in the areas of managing strategic, financial, compliance, regulatory, operational and other risks of the Company, and crisis management.**

vi. **In coordination with the Audit and Governance Committee, ensure that the Company’s internal audit work plan is aligned with risk management activities and that the internal control system considers all risks identified in the risk assessment process.**

vii. **Perform other activities related to this Charter as requested by the Board.**

2.7 **Related Party Transactions Committee**

The Related Party Transactions (RPT) Committee is considered by the Board as a subset of the Audit and Governance Committee, and is composed exclusively of all the three (3) independent directors of the Audit and Governance Committee. The RPT Committee is primarily tasked with the duty of enforcing and implementing the Related Party Transactions Policy of the Company. Thus, the Committee’s guidance will be sought to ensure that material related party transactions of the Company are entered into solely in the ordinary course of business, on ordinary commercial terms and on the basis of arm’s length arrangements, in addition to the requirement of
appropriate corporate approvals and actions of the Related Parties, as the case may be.

ARTICLE II
MANAGEMENT

1. General Responsibilities of Management

The Management is primarily responsible in deciding the day-to-day affairs of the Company. It determines the Company’s activities by putting the Company’s targets in concrete terms and by formulating the basic strategies for achieving these targets. It also puts in place the infrastructure for the Company’s success by establishing the following mechanisms in its organization: i) purposeful legal and organizational structures that work effectively and efficiently in attaining the goals of the Company; ii) useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach; iii) information systems that are defined and aligned with IT strategy and the business goals of the Company; iv) a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the Company.

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

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

The Executive Officers of the Company are the Chairman, the Vice-Chairmen, the President, the Treasurer and/or the Chief Finance Officer, and the Corporate Secretary. The Executive Officers shall be appointed by the Board of Directors. In addition:

i. The Board of Directors shall appoint (from time to time) one or more Group Directors\(^2\), and such other officers, agents and employees as provided for in the Company’s By-Laws.

ii. The Board of Directors may, in its discretion and in accordance with the By-Laws, elect two (2) Co-Vice-Chairmen of the Board from among its members.

iii. The roles of the Chairman and the President are separate to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision-making. The Company shall disclose the relationship between the Chairman and the President, if any, in its annual report to the SEC.

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

a) 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 –

i. schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Company’s operations;

\(^2\) Group Directors have the rank of Vice President under the By Laws of the Company
ii. prepare the meeting agenda in consultation with the President;
iii. exercise control over quality, quantity and timeliness of the flow of information between Management and the Board; and
iv. assist in ensuring compliance with the Company’s guidelines on corporate governance.

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

b) Co-Vice-Chairmen

In the absence of the Chairman of the Board, one of the Co-Vice-Chairmen, if any, shall preside at the meetings of the Board.

c) President

Minimum internal control mechanisms for management’s operational responsibility shall center on the President, being ultimately accountable for the Company’s organizational and procedural controls. In addition to the duties imposed on the President by the Board, the President shall

i. have general supervision of the business, affairs, and property of the Company, and over its employees and officers;
ii. see that all orders and resolutions of the Board are carried into effect;
iii. submit to the Board as soon as possible after the close of each fiscal year, and to the stockholders at the annual meeting, a complete report of the operations of the Company for the preceding year, and the state of its affairs;
iv. report to the Board from time to time all matters within its knowledge which the interest of the Company may require to be brought to their notice.
The President shall have such other responsibilities as the Board may impose upon him.

d) The Treasurer

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

i. deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Company in such banks or trust companies or with such bankers or other depositories as the Board may from time to time designate;

ii. regularly and at least every quarter render to the President or to the Board an account of the fund condition of the Company and of all his transactions as such;

iii. ensure funds availability on a timely basis and at the most economical means;

iv. optimize yields in temporary excess funds;

v. provide relevant and timely capital market information;

vi. ensure appropriate coverage and management of risk to resources.

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

e) The Chief Finance Officer (CFO)

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

i. 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;

ii. 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;

iii. promote investor confidence in the Company by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to various entities are complied with;

iv. strengthen internal controls by monitoring compliance with policies; recommend to management appropriate actions and changes in systems and procedures as necessitated by circumstances.

The CFO shall have such other responsibilities as the Board may impose upon him.

f) The Corporate Secretary

The Corporate Secretary shall be a resident and citizen of the Philippines, who possess organizational and interpersonal skills, and the legal skills of a chief legal officer and the following additional qualifications:

i. Be loyal to the mission, vision and objectives of the Company;

ii. Have a working knowledge of the operations of the Company;

iii. If he is not at the same time the Company’s legal counsel, be aware of laws, rules and regulations necessary in the performance of his duties and responsibilities;

iv. Have appropriate administrative and interpersonal skills.

The Corporate Secretary ensures that the Board and management follow internal and external rules and regulations, and facilitates clear communications between the Board and management. He also informs principal officers of latest corporate governance developments.
The Corporate Secretary shall have the following functions:

i. Serve as an adviser to the directors on their responsibilities and obligations;

ii. Be responsible for the safekeeping and preservation of the integrity of the minutes of meetings of the stockholders, the Board, the Executive Committee, and all other committees, as well as all other official records of the Company. He shall furnish copies thereof to the Chairman, the President and other members of the Board as appropriate;

iii. Work fairly and objectively with the Board, management, stockholders and other stakeholders;

iv. Keep in safe custody the seal of the Company and affix it to any instrument requiring the same;

v. Have charge of the stock certificate book and such other books and papers as the Board may direct;

vi. Attend to the giving and serving of notices of Board and shareholder meetings;

vii. Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

viii. Be fully informed and be part of the scheduling process of other activities of the Board;

ix. Attend all Board meetings, except when justifiable causes prevent him from doing so. For this purpose, the Board shall have discretion of what causes are justifiable;

x. Ensure that all Board procedures, rules and regulations are strictly followed by the members;

xi. 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;
xii. Oversee the adequate flow of information to the Board prior to meetings;

xiii. Ensure fulfillment of disclosure requirements to the SEC and the PSE;

xiv. If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in the Manual.

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 III
GOVERNANCE POLICY ON CONFLICT OF INTEREST

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

a) A conflict of interest exists when a director or an officer of the Company—

i. Supplies or is attempting or applying to supply goods or services to the Company;

ii. Supplies or is attempting to supply goods, services or information to an entity in competition with the Company;

iii. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to the Company;
iv. Is offered or receives consideration for delivering the Company’s business to a third party;

v. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interests of the Company.

b) If an actual or potential conflict of interest should arise on the part of directors, it should be fully disclosed and the concerned director should not participate in the decision making process. 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 Company with one or more of its directors or officers is voidable, at the option of the Company, unless all the following conditions are present:

i. The presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;

ii. The vote of such director was not necessary for the approval of the contract;

iii. The contract is fair and reasonable under the circumstances;

iv. In case of an officer, the contract has been previously approved by the Board of Directors.

Where any of the first two (2) 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 Company, thereby obtaining profits to the prejudice of the
Company, 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.

e) The director is required to comply with all disclosure requirements of the SRC and its Implementing Rules and Regulations and voluntarily disclose any conflict of interest, whether actual or potential, upon its occurrence. The disclosure should be made fully and immediately.

f) The foregoing is without prejudice to the Company’s existing Rules or Code of Conduct and Ethics for its officers, employees and staff.

ARTICLE IV
RELATED PARTY TRANSACTIONS

The Company shall avoid related party transactions. In instances where related party transactions cannot be avoided, the Company shall disclose all relevant information on the same, including information on the affiliated parties and the affiliation of directors and principal officers.
ARTICLE V
AUDIT AND COMPLIANCE

1. Internal Audit

   a) The Internal Audit Group shall provide independent and objective assurance and consulting activity to the Company designed to add value and improve on the organization’s operations. It shall provide the Board, Management and the stockholders with reasonable assurance that the Company’s key organizational and operational controls are effective, appropriate, and faithfully 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 Chief Internal Auditor and shall report periodically and as required by the Audit and Governance Committee of the Board of Directors on its performance, including the status of audit and consulting engagements, compliance with the Annual Audit Plan, significant interim changes, and the sufficiency and proficiency of Internal Audit resources.

   d) The Internal Auditors shall report that their activities are conducted in accordance with the International Standards on 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 said international standards.

2. External Audit

a) The Board, through the Audit and Governance 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.

b) The External Auditor shall –

i. perform fair audits independently from the Company, its management and controlling shareholders, so that shareholders and other users may maintain confidence in the Company’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 rotated every five (5) years or earlier, or the handling partner shall be changed.

d) The reason/s for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Company’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.

e) If an external auditor believes that the statements made in an annual report, information statement or proxy statement filed during his engagement are incorrect or incomplete, he shall also present his views in said reports.

3. Compliance System

To insure adherence to corporate principles and best practices, the Board shall designate a Compliance Officer who shall hold the position of a Group Director. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

The Compliance Officer shall perform the following duties:

i. operationalize this Manual, and monitor compliance with the provisions and requirements of this Manual, as well as the rules and regulations of the regulatory agencies (“Regulatory Rules”);

ii. appear before the SEC upon summon on similar matters that need to be clarified by the same;

iii. determine violation/s of the Manual and recommend penalty for violation thereof for further review and approval of the Board;

iv. issue a certification every January 30th of the year on the extent of the Company’s compliance with this Manual for the completed year, explaining the reason/s of the latter’s deviation from the same, if any;
v. provide the SEC 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;

vi. identify, monitor and control compliance risks;

vii. determine violations of this Manual and Regulatory Rules and create a system for according due notice, hearing, and due process for dealing with violations of the Manual and Regulatory Rules;

viii. recommend the penalties for violations of the Manual and Regulatory Rules, for further review and approval of the Board, and adopt measures to prevent repetition of any violation.

The appointment of the Compliance Officer shall be immediately disclosed to the SEC. All correspondence relative to his functions as such shall be addressed to said Officer.

ARTICLE VI

COMMUNICATION AND INFORMATION

1. Management's Responsibility for Information

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

a.1) Present a balanced and understandable assessment of the Company’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;
a.2) Explain their responsibility for preparing the accounts, for which there should be a statement by the auditors about their reporting responsibilities;

a.3) Report that the business is a going concern, with supporting assumptions or qualifications, if necessary;

a.4) Maintain a sound system of internal control to safeguard stakeholders’ investment and the Company’s assets;

a.5) 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;

a.6) Require the Chief Audit Executive to render to the Audit and Governance 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 and Governance 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.

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

b.1) The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
b.2) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company should be maintained for the benefit of all stockholders and other stakeholders;

b.3) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company’s governance, operations and information systems, including reliability and integrity of financial and operational information, effectiveness and efficiency of the operations, protection of assets, and compliance with contracts, laws, rules and regulations;

b.4) The Company should consistently comply with the financial reporting requirements of the SEC;

b.5) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Company, should be changed with the same frequency. The Internal Auditor should submit to the Audit and Governance Committee and Management an annual report on the internal audit department’s activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit and Governance Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.
c) 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.

2. The Investor Relations Function

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

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

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

3. Communication of this Manual

This Manual shall be submitted to and made available at the SEC. It shall also be available for inspection by any stockholder of the Company at its principal office during reasonable hours on a business day.
All directors, executives and officers of the Company are required to ensure complete dissemination of this Manual to all employees and enjoin compliance in the process. If necessary, funds shall be allocated for orientation programs or workshops to implement this Manual.

ARTICLE VII
DISCLOSURE AND TRANSPARENCY

It is essential that all material information that could potentially affect Manila Water’s share price and viability, or the interest of its stockholders and other stakeholders, and such other information that are required to be disclosed pursuant to the SRC and its Implementing Rules and Regulations as well as other relevant laws should be publicly and timely disclosed. These information include but are not limited to earnings results, acquisition or disposal of significant assets, off balance sheet transactions, changes in Board membership as well changes in shareholdings of directors and officers, and remuneration of directors and officers and related party transactions.

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

The Company shall disclose its corporate governance practices, corporate events calendar, and other material information on its website in a timely manner.
ARTICLE VIII
EVALUATION SYSTEMS AND TRAINING

1. Evaluation Systems

The Compliance Officer shall establish an evaluation system to measure the performance of the Board and the Executive Officers of the Company in terms of good governance practices. This shall be annually conducted by the Audit and Governance Committee, which shall discuss the results thereof at a Board meeting. Independent consultants may also be invited to assist the Audit and Governance Committee in this process.

2. Training

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

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

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

a) Voting Right

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

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

b) 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 Company. The Articles of Incorporation may provide 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.

c) Right of Inspection

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

Upon request and for a legitimate purpose, a shareholder shall be provided with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Company’s shares, dealings with the Company, relationships among directors and key officers, and the aggregate compensation of directors and officers. The 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 SEC.

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.

e) Right to Dividends

Shareholders have the right to receive dividends subject to the discretion of the Board. However, the SEC may direct the Company 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 Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for a special reserve for probable contingencies.
f) Appraisal Right

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

f.1) 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;

f.2) 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

f.3) In case of merger or consolidation.

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 provide effective 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.

The Board should be transparent and fair in the conduct of the annual and special stockholders’ meetings of the Company. The stockholders should be encouraged to personally attend such
meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-laws, the exercise of that right shall not be unduly restricted and any reasonable doubt about the validity of a proxy should be resolved in the stockholder’s favor.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of a meeting and the right to propose items in the agenda of the meeting that relate directly to legitimate business purposes, all in accordance with the By-laws.

ARTICLE X

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 Company’s directors, officers, staff, in case of violation of any of the provisions of this Manual:

a) In case of first violation, the subject person shall be reprimanded;

b) 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;

c) 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 XI
REVIEW AND AMENDMENT OF MANUAL

1. The provisions of this Manual and the enforcement thereof shall be subject to annual review by the Office of the Compliance Officer in coordination with the Audit and Governance Committee, unless otherwise stated by the Board.

2. All business processes and practices being performed within any department or business unit of the Company 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 continuously improve the Company’s corporate governance practices by assessing their effectiveness and comparing them with evolving best practices, standards identified by leading governance authorities and the Company’s changing circumstances and needs.

ARTICLE XII
ADOPTION AND EFFECTIVITY

The Manual was first adopted by the Board of Directors of the Company on May 3, 2004, and was subsequently revised on November 15, 2007, April 11, 2011, and June 24, 2014. The latest revision was approved by the Board on August 11, 2016.

Signed on August 11, 2016 by:

FERNANDO ZOBEL DE AYALA
Chairman of the Board

GERARDO C. ABLAZA JR.
President and Chief Executive Officer