SEC MEMORANDUM CIRCULAR NO. 2
Series of 2002

CODE OF CORPORATE GOVERNANCE

In accordance with the State's policy to actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy, the Commission, in its Resolution No.135, Series of 2002 dated April 04 2002, approved the promulgation and implementation of this Code, which shall be applicable to corporations whose securities are registered or listed, corporations which are grantees of permits/licenses and secondary franchise from the Commission and public companies. This Code also applies to branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed.

I. Definitions

A. *Board of Directors* – refers to the collegial body that exercises the corporate powers of all corporations formed under the Corporation Code. It conducts all business and controls or holds all property of such corporations.

B. *Corporate Governance* – refers to a system whereby shareholders, creditors and other stakeholders of a corporation ensure that management enhances the value of the corporation as it competes in an increasingly global market place.

C. *Independent Director* – refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the directors' fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment.

D. *Public Company* – refers to any corporation with a class of equity securities listed in an Exchange or with assets in excess of Fifty Million Pesos (P50,000,000.00) and having two hundred (200) or more stockholders each holding at least one hundred (100) shares of a class of its securities.

E. *Management* – refers to the body given the authority to implement the policies determined by the Board in directing the course/business activity/ies of the corporation.

F. *Executive Director* – refers to a director who is at the same time appointed to head a department/unit within the corporate organization.

G. *Non-executive director* – refers to a Board member with non-executive functions.

H. *Non-audit work* – refers to other services offered by the external auditor to a corporation that are not directly related and relevant to its statutory audit function. Examples include accounting, payroll, bookkeeping, reconciliation, computer project management, data processing or information technology outsourcing services, internal auditing, and services that may compromise the independence and objectivity of the external audit.

I. *Internal control* – refers to the process effected by a company's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws, regulations, and internal policies.

J. *Internal control environment* – refers to the framework under which internal controls are developed, implemented, alone or in concert with other policies or procedures, to manage and control a particular risk or business activity, or combination of risks or business activities, to which the company is exposed.

K. *Internal auditing* – refers to an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

L. *Internal audit department* – refers to a department, division, team of consultants, or other practitioner(s) that provide independent, objective assurance and consulting services designed to add value and improve an organization's operations.

M. *Chief Audit Executive* – refers to the top position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract

and the overall quality assurance of these activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, and inspector general.

N. *Independence* – refers to that environment which allows the person to carry out his/her work freely and objectively.

O. *Objectivity* – refers to unbiased mental attitude that requires the person to carry out his/her work in such a manner that he/she has an honest belief in his/her work product and that no significant quality compromises are made. Objectivity requires the person not to subordinate his/her judgment to that of others.

P. *Standards for the Professional Practice of Internal Auditing (SPPIA)* – refers to the criteria by which the operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be, provide a framework for performing and promoting a broad range of value-added internal audit activities and foster improved organizational processes and operations.

II. The Board Governance

The Board of Directors (Board) is primarily responsible for the governance of the corporation. It needs to be structured so that it provides an independent check on management. As such, it is vitally important that a number of board members be independent from management.

1. Composition of the Board

   The Board shall be composed of at least five (5) but not more than fifteen (15) members elected by shareholders. Public companies shall have at least two (2) independent directors or such independent directors shall constitute at least twenty percent (20%) of the members of such Board, whichever is the lesser. All other companies are encouraged to have independent directors as well.

   The Board may include a balance of executive and non-executive directors (including independent non-executives), having a clear division of responsibilities such that no individual or small group of individuals can dominate the Board's decision making.

   The non-executive directors should be of sufficient qualifications, stature and number to carry significant weight in the Board's decisions. Non-executive directors considered by the Board to be independent shall be identified in the annual report.

2. Multiple Board Seats

The Board may consider guidelines on the number of directorships for its members. The optimum number is related to the capacity of a director to perform his duties diligently in general. The Chief Executive Officer and other executive directors may submit themselves to a low indicative limit on membership in other corporate Boards. The same low limit may apply to independent, non-executive directors who serve as full-time executives in other corporations. In any case, the capacity of directors to serve with diligence shall not be compromised.

3. The Chairman and the Chief Executive Officer

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 decision-making. The company shall disclose the relationship between the Chairman and the CEO upon their election.

Where both positions of the Chairman and CEO are unified, there is clearly one leader to provide a single vision and mission. In this instance, checks and balances should be clearly provided to help ensure that independent, outside views, perspectives, and judgments are given proper hearing in the Board.

The Chairman's responsibilities may include:

a. schedule meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the company's operations
b. prepare 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 company's guidelines on corporate governance.

The responsibilities set out in the above guidelines may pertain only to the Chairman's role in respect to the Board proceedings. It should not be taken as a comprehensive list of all the duties and responsibilities of a Chairman.

4. Qualifications of Directors

Every director shall own at least one (1) share of the capital stock of the corporation of which he is a director, which share shall stand in his name in the books of the corporation.

The Board may provide for additional qualifications of a director such as, but not limited to, the following:

a. Educational attainment
b. Adequate competency and understanding of business
c. Age requirement
d. Integrity/probity
e. Assiduousness

5. Disqualification of Directors

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

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, 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 company, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, floor broker; and (iii) any crime arising 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 or trial, is permanently or temporarily enjoined by order, judgment or decree 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 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 Commission or any court or other administrative body refusing, 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, 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 associating with a member or participant of the organization.

c. Any person finally convicted judicially or administratively of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false oath, perjury or other fraudulent act or transgressions.

d. Any person finally found by the Commission 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 Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas, or who has filed a materially false or misleading application, report or registration statement required by the Commission, or any rule, regulation or order of the Commission.

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 similar to any of the acts, violations or misconduct listed in paragraphs (a) to (e) hereof.

g. Any affiliated person who is ineligible, by reason of paragraphs (a) to (e) hereof to serve or act in the capacities listed in those paragraphs.

h. Conviction by final 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.

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

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 for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency. This disqualification applies for purposes of the succeeding election.

c. Dismissal/termination from directorship in another listed corporation 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 corporation.

e. If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director.

f. If the beneficial security ownership of an independent director in the company or in its related companies shall exceed the 10% limit.

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

6. Duties, Functions and Responsibilities

It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it should exercise in the best interest of the corporation and its shareholders.

a. General Responsibility

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. A director assumes certain responsibilities to different constituencies or stakeholders, who have the right to expect that the institution is being run in a prudent and sound manner.

To ensure good governance of the corporation, the Board should establish the corporation's vision and mission, strategic objectives, policies and procedures that may guide and direct the activities of the company and the means to attain the same as well as the mechanism for monitoring management's performance. While the management of the day-to-day affairs of the institution is the responsibility of the management team, the Board is, however, responsible for monitoring and overseeing management action.

b. Duties and Functions

To insure a high standard of best practice for the company and its stakeholders, the Board should conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities which include, among others, the following:

i. Install a process of selection to ensure a mix of competent directors, each of whom can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Select and appoint the CEO and other senior officers, who must have the motivation, integrity, competence and professionalism at a very high level. Adopt a professional development program for employees and officers, and succession planning for senior management.

ii. Determine the corporation's purpose and value as well as strategies and general policies to ensure that it survives and thrives despite financial crises and its assets and reputation are

adequately protected. Provide sound written policies and strategic guidelines to the corporation that will help decide on major capital expenditures. Determine important policies that bear on the character of the corporation with a view towards ensuring its long-term viability and strength. It must periodically evaluate and monitor implementation of such strategies and policies, business plans and operating budgets as well as management's over-all performance to ensure optimum results.

iii. Ensure that the corporation complies with all relevant laws, regulations and codes of best business practices.

iv. Identify the corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them accurately, effectively and sufficiently. There must be an accounting rendered to them regularly in order to serve their legitimate interests.

Likewise, an investor relations program that reaches out to all shareholders and fully informs them of corporate activities should be developed. As a best practice, the chief financial officer or CEO should have oversight of this program and should actively participate in public activities

v. Adopt a system of internal checks and balances, which may be applied in the first instance to the Board. A regular review of the effectiveness of such system must be conducted so that the decision-making capability and the integrity of corporate operations and reporting systems are maintained at a high level at all times.

vi. Endeavor to provide appropriate technology and systems rating to account for available resources to ensure a position of a strong and meaningful competitor. Identify key risk areas and key performance indicators and monitor these factors with due diligence.

vii. Constitute an Audit and Compliance Committee.

viii. Properly discharge Board functions by meeting regularly. Independent views during Board meetings should be given due consideration and all such meetings should be duly minuted.

ix. Keep Board authority within the powers of the institution as prescribed in the articles of incorporation, by-laws and in existing laws, rules and regulation. Conduct and maintain the affairs of the institution within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations.

c. Specific Duties and Responsibilities of a Director

i. **To conduct fair business transactions with the corporation and to ensure that personal interest does not bias Board decisions.** The basic principle to be observed is that a director should 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. If an actual or potential conflict of interest should arise on the part of directors or senior executives, 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 consider resigning.

ii. **To devote time and attention necessary to properly discharge his duties and responsibilities.** A director should devote sufficient time to familiarize himself with the institution's business. He should be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He should attend and actively participate in Board and committee meetings, request and review meeting materials, ask questions, and request explanations.

iii. **To act judiciously.** Before deciding on any matter brought before the Board of directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

iv. **To exercise independent judgment.** A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollarily, he should support plans and ideas that he thinks are beneficial to the corporation.

v. **To have a working knowledge of the statutory and regulatory requirements affecting the corporation, including the contents of its articles of incorporation and by-laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies.** A director should also keep himself informed of industry developments and business trends in order to safeguard the corporation's competitiveness.

vi. **To observe confidentiality.** A director should observe the confidentiality of non-public information acquired by reason of his

position as director. He should not disclose any information to any other person without the authority of the Board.

vii. **To ensure the continuing soundness, effectiveness and adequacy of the company's control environment.**

d. Internal Control Responsibilities of the Board

The control environment is composed of: (a) the Board which ensures that the company is appropriately and effectively managed and controlled, (b) a management that actively manages and operates the company in a sound and prudent manner, (c) the organizational and procedural controls supported by an effective management information system and risk management reporting system, and (d) the independent audit mechanisms to monitor the adequacy and effectiveness of 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. The minimum internal control mechanisms for the Board's oversight responsibility may include:

- Defining the duties and responsibilities of the CEO;
- Selecting or approving an individual with appropriate ability, integrity, experience to fill the CEO role;
- Reviewing proposed senior management appointments;
- Ensuring the selection, appointment and retention of qualified and competent management;
- Reviewing the company's personnel and human resource policies and sufficiency, conflict of interest situations, changes to the compensation plan for employees and officers and management succession plan.

ii. The minimum internal control mechanisms for management's operational responsibility would center on the CEO, being ultimately accountable for the company's organizational and procedural controls.

iii. The scope and particulars of a system of effective organizational and procedural controls may differ among companies depending on factors such as: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

iv. Each company may have in place an independent audit function, through which the company's Board, senior management, and stockholders may be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate, and complied with. The Board may appoint a chief audit executive to carry out the audit function, and may require the chief audit executive to report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

7. Board Meetings and Quorum Requirement

Members of the Board should attend regular and special meetings of the Board in person. In view of modern technology, however, attendance at Board meetings through teleconference may be allowed.

An independent director should always be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but deliberately and without justifiable cause fails to attend the meeting. Justifiable causes may only include grave illness or death of immediate family and serious accidents.

To monitor compliance with the above requirement, corporations may, at the end of every fiscal year, provide the Commission with a sworn certification that the foregoing requirement has been complied with. The said certification may be submitted with the company's current report (SEC Form 17-1) or on a separate filing.

8. Remuneration of the Members of the Board and Officers

Levels of remuneration shall be sufficient to attract and retain the directors, if any, and officers needed to run the company successfully. Corporations, however, should avoid paying more than what is necessary for this purpose. A proportion of executive directors' remuneration may be structured so as to link rewards to corporate and individual performance.

Corporations may establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors, if any, and officers. No director should be involved in deciding his or her own remuneration.

The corporations' annual reports, information and proxy statements shall include a clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, paid to, or estimated to be paid to, directly or indirectly to all individuals serving as the CEO or acting in a similar capacity during the last completed fiscal year, regardless of the compensation level and the corporation's four (4) most

highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed year.

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

9. Board Committees

The Board shall constitute Committees in aid of good corporate governance.

A. The Audit Committee shall be composed of at least three (3) Board members, preferably with accounting and finance background, one of whom shall be an independent director and another should have related audit experience. It shall have the following specific functions:

a. Provide oversight over the senior management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation. This function shall include receiving from senior management periodic information on risk exposures and risk management activities. However, in consideration of the risk profile of the corporation, the Board may constitute a separate Risk Management Committee to focus on carrying out this oversight role over risk management;

b. Provide oversight of the corporation's internal and external auditors;

c. Review and approve audit scope and frequency, and the annual internal audit plan;

d. Discuss with the external auditor before the audit commences the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;

e. Responsible for the setting-up of an internal audit department and consider the appointment of an internal auditor as well as an independent external auditor, the audit fee and any question of resignation or dismissal;

f. Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system;

g. 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;

h. Review the quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:

- Any change/s in accounting policies and practices
- Major judgmental areas
- Significant adjustments resulting from the audit
- Going concern assumption
- Compliance with accounting standards
- Compliance with tax, legal, and stock exchange requirements

i. Responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. It may also constitute a Compliance Unit for this purpose.

j. Evaluate and determine non-audit work by external auditor and keep under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the company's total expenditure on consultancy. The non-audit work should be disclosed in the annual report.

k. Establish and identify the reporting line of the chief audit executive so that the reporting level allows the internal audit activity to fulfill its responsibilities. The chief audit executive shall report directly to the Audit Committee functionally. The Audit Committee shall ensure that the internal auditors shall have free and full access to all the company's records, properties and personnel relevant to the internal audit activity and that the internal audit activity should be free from interference in determining the scope of internal auditing examinations, performing work, and communicating results, and shall provide a venue for the Audit Committee to review and approve the annual internal audit plan.

The Chairman of this committee should be an independent director. He should be responsible for inculcating in the minds of the Board members the importance of management responsibilities in maintaining a sound system of internal control and the Board's oversight responsibility.

For Philippine branches or subsidiaries of foreign corporations covered by this Code, the local audit head for such entities should be independent of the Philippine operations and should report to the regional or corporate headquarters.

B. The Board may also constitute the following committees:

a. The Nomination Committee which may be composed of at least three (3) members, one of whom should be an independent director may review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring

appointment by the Board and provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board members.

b. The Compensation or Remuneration Committee may be composed of at least three (3) members, one of whom should be an independent director. It may 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 compensation is consistent with the corporation's culture, strategy and control environment.

10. The Corporate Secretary

The Corporate Secretary, who must be a Filipino, is an officer of the corporation. Perfection in performance and no surprises are expected of him. Likewise, his loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

Like the CEO, he should work and deal fairly and objectively with all the constituencies of the corporation, namely, the Board, management, stockholders and other stakeholders. As such, he should be someone his colleagues and these constituencies can turn to, trust and confide with on a regular basis.

He should have the administrative skills of the chief administrative officer of the corporation and the interpersonal skills of the chief human resources officer. If the Corporate Secretary is not the general counsel, then he must have the legal skills of a chief legal officer. He must also have the financial and accounting skills of a chief financial officer, and, lastly the vision and decisiveness of the CEO.

Since there are different individuals on top of various corporate activities, the Corporate Secretary should be fully informed and be part of the scheduling process of the different activities. As to agendas, he should have the schedule thereof at least for the current year and should put the Board on notice before every meeting. It is a very important discipline to get the Board to think ahead. He should serve as an adviser to director's responsibilities and obligations.

The Corporate Secretary should make sure that directors have before them everything that they need to make an informed decision. When the Board makes a decision, it is covered by a business judgment that can be arrived at by the members acting in good faith with the assistance of the Corporate Secretary who should review carefully the information presented to the directors at the time they are to make a decision.

III. Supply Information

In order to fulfill their responsibilities, Board members, should be provided with complete, adequate and timely information prior to Board meetings on an on-going basis.

Management should have an obligation to supply the Board with complete, adequate information in a timely manner. Reliance purely on what is volunteered by Management is unlikely to be enough in all circumstances and further inquiries may be required if the particular director is to fulfill his or her duties properly. Hence, the Board may have separate and independent access to the company's senior management.

The information may include the background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. With respect to the budget, any variance between the projections and actual results should also be disclosed and explained.

Directors should also have a separate and independent access to the Corporate Secretary. The role of the Corporate Secretary should be clearly defined and should include responsibility for ensuring that Board procedures are being followed and that applicable rules and regulations are complied with. The Corporate Secretary should attend all Board meetings.

The Board should have 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.

IV. Accountability and Audit

1. The Board is primarily accountable to the shareholders and Management is primarily accountable to the Board. The Board should provide the shareholders with a balanced and understandable assessment of the corporation's performance, position and prospects on a quarterly basis. The Management should provide all members of the Board with a balanced and understandable account of the corporation's performance, position and prospects on a monthly basis. This responsibility should extend to interim and other price sensitive public reports and reports to regulators (if required). It should be primarily responsible in making financial reporting and internal control in accordance with the following guidelines:

    a. Present a balanced and understandable assessment of the company's position and prospects. The Board's responsibility to present a balanced and understandable assessment should extend 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 stakeholders' investment and the company'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 and senior management 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. The chief audit executive's annual report shall likewise be made available to the stockholders of the company. 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 senior management that it has not yet achieved full compliance with the standards for the professional practice of internal auditing.

2. Selection/Appointment, Resignation, Dismissal or Cessation of Service of an External Auditor

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 financial statements shall have been prepared and presented. Such external auditor cannot at the same time provide the services of an internal auditor to the same client. Other non-audit work should not be in conflict with the functions of the external auditor.

The external auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.

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 cause making reference to the subject matter of the disagreement in connection with its report.

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.

V. Stockholders' Rights and Protection of Minority Stockholders' Interests

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

1. Voting Right

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

   The Code mandates the use of cumulative voting in the election of directors. Although directors may be removed with or without cause, the Code prohibits removal without cause if it will deny minority shareholders representation in the Board. Removal of directors requires an affirmative vote of two-thirds of the outstanding capital.

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.

3. Power of Inspection

   The Corporation Code mandates corporations to allow shareholders to inspect corporate books and records including minutes of Board

meetings and stock registries in accordance with the Corporation Code and to provide them an annual report, including financial statements, without cost or restrictions.

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 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 found 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 should be granted 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.

The minority shareholders should 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, being within the definition of "legitimate purposes".

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.

6. Appraisal Right

The Corporation Code allows the exercise of the shareholders' appraisal rights under the following circumstances:

a. 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;

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

c. In case of merger or consolidation.

It is the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders rights and allow possibilities 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.

VI. Evaluation Systems

The management may establish a performance evaluation system to measure the performance of the Board and top-level management of the corporation.

The establishment of such evaluation system, including the features thereof, may be disclosed in the company's annual report (SEC Form 17-A).

VII. Disclosure and Transparency

A dominant theme in all issues related to corporate governance is the vital importance of disclosure. The more transparent the internal workings of the company and cash flows, the more difficult it will be for management and controlling shareholders to misappropriate company assets or mismanage the company.

The most basic and all encompassing disclosure requirement is that all material information, i.e., any thing that could potentially affect share price, should be publicly disclosed. Such information would include earnings results, acquisition or disposal of assets, board changes, related party transactions, shareholdings of directors and changes to ownership. Other information that should always be disclosed includes remuneration (including stock options) of all directors and senior management corporate strategy, and off balance sheet transactions. All disclosed information should be released via the approved stock exchange procedure for company announcements as well as through the annual report.

The Board shall therefore, commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information for the interest of the stakeholders.

VIII. Commitment to Corporate Governance

Corporations shall promulgate and adopt its corporate governance rules and principles in accordance with this Code. Said rules shall be in manual form and available as reference by the directors. It shall be submitted to the Commission, which shall evaluate the same and their compliance with this Code taking into account the size and nature of business. The said manual shall be available for inspection by any stockholder of the corporation at reasonable hours on business days. The Chairman of the Board shall be specifically tasked with the responsibility of ensuring adherence to the corporate governance code and practices.

Unless mandated by law, other corporations are likewise encouraged to observe this Circular in the absence of any mandated corporate governance rules adopted by other agencies.

IX. Administrative Sanction

Failure to adopt a manual of corporate governance as specified therein shall subject a corporation, after due notice and hearing, to a penalty of P100,000.00.

X. Transitory Provision

All corporations affected by this Code shall submit their manual by July 1, 2002 to be effective January 1, 2003. A model manual will be drafted by the Commission and will be available by May 15, 2002 in the SEC web page.

XI. Effective Date

This Memorandum Circular shall take effect after fifteen (15) days from publication in a newspaper of general circulation.

April 5, 2002.

Mandaluyong City, Philippines.

LILIA R. BAUTISTA
Chairperson