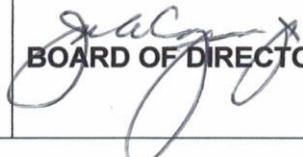




MANUAL OF CORPORATE GOVERNANCE		
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It is the policy of PITC Pharma, Inc. (PPI) to actively promote and pursue corporate governance reforms and to consciously observe principles of accountability and transparency. The Board of Directors of PPI hereby adopts this **Manual of Corporate Governance** ("Manual") as a conscious attempt to significantly enhance the corporate organization of PPI to make it a valuable partner of the government in national development and to make it a corporation that is competitive both locally and globally.

I. DEFINITION OF TERMS

- 1.1 "PPI" refers to PITC Pharma, Inc.
- 1.2 "Board" refers to the collegial body that exercises the corporate powers of PPI as specified in its Articles of Incorporation. It is charged with the functions of governing and conducting the business of PPI and monitoring Management.
- 1.3 "Corporate Governance" is one key element in improving economic efficiency and growth as well as enhancing investor confidence. It involves a set of relationship between a corporation's Management, its Board, its shareholders and other stakeholders. It also provides the structure through which the objectives of a corporation are set, and the means of achieving those objectives and monitoring performance are determined.
- 1.4 "Executive Committee" is composed of three (3) members of the Board who are elected/nominated among the members of PPI Board, two (2) of whom shall represent the majority stocks and one (1) by directors representing minority stocks. The Executive Committee shall be subject at all times to the direction and control of the Board of Directors. The Executive Committee shall have and may exercise any of the powers of the Board in the management of the business and affairs of the corporation during the intervening period between the Board's meetings except those powers which should be exercised solely by the Board of Directors as provided by law.
- 1.5 "Independent Board Member" refers to a person other than an officer or employee of PPI, its parent or subsidiaries, or any other individual having any relationship with PPI, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a member of the Board. This means that apart from his fees as a member of the Board, 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.

- 1.6 “Management” refers to the body given the authority to implement the policies determined by the Board in directing the course and business activities of PPI.
- 1.7 “Internal Control” refers to the process effected by a corporation's Board, 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.
- 1.8 “Internal Auditing” refers to an independent, objective assurance and consulting activity designed to add value and improve a corporation's operations. It helps a corporation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 1.9 “Shareholders” of PPI pertain to equity investors of stock corporations owned or controlled by the government or through its instrumentalities to the extent of at least fifty-one percent (51%) of its capital stock.
- 1.10 “Stakeholders” refers to investors providing external capital to PPI both in the form of equity and credit.
- 1.11 “Compliance Officer” is an officer / employee whose responsibilities include ensuring that the company complies with its outside regulatory requirements and internal policies.
- 1.12 “Fit and Proper Rule” refers to the standard for determining whether a member of the Board of Directors/ Trustees or CEO is fit and proper to hold a position in a GOCC which shall include, but not be limited to, standards on integrity, experience, education, training and competence.

II. COMMITMENT TO PRINCIPLES OF GOOD PUBLIC CORPORATE GOVERNANCE

2.1 PPI as an active partner of the government in national development. The corporate form of organization, when utilized judiciously, is an institutional form through which the government may participate in economic and social development. PPI acknowledges that its corporate organization is essential to the performance of its functions as an active partner of the government in national development. Such functions include the delivery of public services, as well as the production and creation of wealth necessary to support vital government initiatives.



2.2 Governing principles of good corporate governance of PPI. Incorporating lessons learned from corporate governance reforms in the private sector,¹ as well as international guidelines on corporate governance,² the corporate governance framework for PPI shall be governed by the following principles:³

- a. PPI shall promote transparency, accountability and fairness, and its business shall be conducted strictly in accordance with the rule of law and shall be supportive of the primary goals and objectives of the government.
- b. Timely and accurate disclosure shall be made on all material aspects and development regarding PPI, including its financial condition, performance, ownership, and governance.
- c. The strategic guidance of PPI shall be in accord with the objectives set by the government, the effective monitoring of Management by the Board, and the Board's accountability to the corporation and the shareholders.
- d. The exercise of shareholders' rights, when applicable, shall be protected and facilitated. Also, when applicable, the corporation shall ensure the equitable treatment of all shareholders, including minority shareholders.
- e. Active cooperation between PPI and its stakeholders in creating wealth, jobs and the sustainability of a financially sound enterprise shall be encouraged.

2.3 Commitment to institutionalize the principles of corporate governance.

PPI is committed to institutionalize the principles of good corporate governance in the entire organization. The Board of Directors, Management and Employees of PPI equally commit to the principles contained in this Manual and acknowledge that this Manual will serve as a guide in the achievement of the corporate goals.

2.4 Promotion of corporate governance. The Board of Directors, Management and Employees believe that good corporate governance is an integral component of sound strategic business management and of transparency and accountability in public corporate governance, and will therefore undertake every effort necessary to create awareness within PPI.

¹ Pursuant to Republic Act No. 8799 or the Securities Regulation Code of 2000, the Securities and Exchange Commission (SEC) issued Memorandum Circular No. 02-02 dated 5 April 2002 providing for a Code of Corporate Governance for corporations whose securities are registered or listed, corporations which are grantees of permits/licenses and secondary franchise from the SEC, and public companies, and branches or subsidiaries of foreign corporations operating in the Philippines whose securities are registered or listed. The Insurance Commission (IC) has also issued Insurance Circular Letter No. 31-05 dated 26 September 2005 updating its Corporate Governance Principles and Leading Practices, which was first issued in 2003, for adoption and compliance by all insurance companies and intermediaries authorized to do business in the Philippines.

² The international benchmark on corporate governance is provided by the OECD Principles of Corporate Governance (2004) and OECD Guidelines on Corporate Governance of State-owned Enterprises (2005). at <http://www.oecd.org>. The paper "held by the visible Hand: The Challenge of SOE Corporate Governance for Emerging Markets", The World Bank Corporate Governance, May 26, is also useful in identifying the specific areas of corporate governance reform in state-owned enterprises, at <http://rru.worldbank.org/Documents/Other/CorpGovSOEs.pdf>.

³ OECD Principles of Corporate Governance.



2.5 No Gift Policy. - A Director or Officer shall not solicit, nor accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary value ("Gift") from any person where such Gift:

- a. Would be illegal or in violation of law;
- b. Is part of an attempt or agreement to do anything in return;
- c. Has a value beyond what is normal and customary in the GOCCs business;
- d. Is being made to influence the member of Board's, or Officers' actions as such; or
- e. Could create the appearance of a conflict of interest.

III. PPI BOARD

The Board of Directors (the "Board") is primarily responsible for ensuring good corporate governance in PPI. As such, it must be structured in a manner that it can act in the interest of PPI and effectively monitor Management without undue political interference from the government. To this end, it will be necessary to ensure the competency of the Board, enhance their independence and improve the way they function.

3.1 Mandate and responsibility of the PPI Board. The responsibilities of the Board are articulated in PPI's By-Laws, and other relevant legislation, rules and regulations. These responsibilities include the following:

- a. Providing the corporate leadership of PPI subject to rule of law, and the objectives set by the government and PPI;
- b. Establishing PPI's vision and mission, strategic objectives, policies and procedures;
- c. Defining PPI's values and standards;
- d. Fostering the long-term success of PPI, and securing its sustained competitiveness;
- e. Determining the organizational structure of PPI, defining the duties and responsibilities of its officials and employees and adopting a compensation and benefit scheme for the same;
- f. Ensuring that personnel selection shall be on the basis of merit and fitness and that all personnel action shall be in pursuance of the applicable laws, rules and regulations;
- g. Preparing the annual and supplemental budgets of PPI;
- h. Complying with reportorial requirements, as required in PPI's Articles of Incorporation and By-laws, as well as applicable laws, rules and regulations;
- i. Carrying out the mandate of PPI, as provided in its Articles of Incorporation;
- j. Acting as an effective and independent check on Management; and
- k. When applicable, ensuring the equitable treatment of shareholders and enhancing PPI's relation with shareholders.

3.2 Specific functions of the PPI Board. In addition to those specified in its By-Laws, the PPI Board shall perform, among others, the following functions:



- a. Meeting regularly to properly discharge its responsibilities. Independent views during Board meetings shall be given due consideration and all such meetings shall be documented in the minutes of the Board meeting;
- b. Determining PPI's purpose and value, as well as strategies and general policies, to ensure that PPI survives and thrives despite financial crises and its assets and reputation are adequately protected;
- c. Determining important policies that bear on the character of PPI with a view towards ensuring its long-term viability and strength;
- d. Monitoring and evaluating on a regular basis the implementation of corporate strategies and policies, business plans and operating budgets, as well as Management's over-all performance to ensure optimum results;
- e. Ensuring that PPI complies with all relevant laws, regulations and codes of best business practices;
- f. Selecting and appointing a President/CEO and other key executives with the appropriate level of motivation, integrity, competence and professionalism;
- g. Establishing a competitive selection process to ensure that the key executives of PPI have the necessary motivation, integrity, competence and professionalism;
- h. Adopting a professional development program for officers and employees, and succession planning for key executives of PPI;
- i. Aligning key executive and board remuneration with the longer term interests of the corporation;
- j. Monitoring and managing potential conflicts of interest of Management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions;
- k. Ensuring the integrity of PPI's accounting and financial reporting systems, including independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards;
- l. Overseeing the process of disclosure and communications;
- m. Providing sound written policies and strategic guidelines on PPI operating budget and major capital expenditures;
- n. Implementing a system of internal checks and balances, which may be applied in the first instance to the Board. Such systems should be regularly reviewed and updated;
- o. Identifying and monitoring, and endeavoring to provide appropriate technology and systems for the identification and monitoring of key risks and key performance areas;
- p. Constituting an Audit Committee and such other specialized committee as may be necessary to assist the Board in discharging its functions; and
- q. Conducting and maintaining the affairs of PPI within the scope of its authority, as prescribed in its Articles of Incorporation, By-laws, and applicable laws, rules and regulation.

3.3 Fiduciary Duties of the Board and Officers. Without prejudice with the above duties and responsibilities, the PPI Board and Officers shall adopt Section 19 of the GOCC Governance Act of 2011" (RA 10149). As fiduciaries of the State, members of the Board of Directors/Trustees and the Officers of GOCCs have



the legal obligation and duty to always act in the best interest of the GOCC, with utmost good faith in all its dealings with the property and monies of the GOCC.

The members of the Board and Officers of GOCCs shall:

- a. Act with utmost and undivided loyalty to the GOCC;
- b. Act with due care, extraordinary diligence, skill and good faith in the conduct of the business of the GOCC;
- c. Avoid conflicts of interest and declare an interest they may have in any particular matter before the Board;
- d. Apply sound business principles to ensure the financial soundness of the GOCC; and
- e. Elect and/or employ only Officers who are fit and proper to hold such office with due regard to the qualifications, competence, experience and integrity
- f. Where a member of the Board or an Officer, by virtue of the office, acquires or by virtue of the office, acquires or receives for oneself a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the GOCC has an interest, using the properties of the GOCC for their own benefit, receiving commission on contracts from the GOCC's assets, or taking advantage of corporate opportunities of the GOCC, all such profits or benefits shall be subject to restitution under Section 24 of this Act, without prejudice to any administrative, civil or criminal action against members of the Board of Directors/Trustees or Officers. This provision shall be applicable notwithstanding the fact that such member of the Board or Officer risked one's own funds in the venture.

3.4 Composition of PPI Board. The Board of Directors of the Corporation shall be composed of five (5) members consisting of a Chairman and four (4) members to be appointed by the President of the Philippines from a shortlist prepared by the GCG in accordance with the provision of RA 10149.

3.5 Replacement of Directors. Vacancies in the Board shall be filled by appointment by the President from a shortlist submitted by GCG. Further, appointment to any vacancy shall be only for the unexpired term of the predecessor.

3.6 Change in Composition. In case the percentage of shares owned by any Shareholder increases or decreases, the Shareholders agree to review the number of directors that Shareholders are entitled to nominate under the Shareholders Agreement. The number of directors representing each Shareholder shall, as far as practicable, be in proportion to the Shares held by each Shareholder.

3.7 Qualification of Board members. PPI, being created under the general corporation law, shall have board members that own at least one (1) share of the capital stock of PPI of which he is a director, which share shall stand in his name in the books of PPI. The Board may provide for additional qualifications of a board member such as, but not limited to the following: educational attainment; adequate competency and understanding of business; age requirement; integrity/probity; and assiduousness.



All members of the PPI Board shall be qualified by the Fit and Proper Rule issued by the Governance Commission for GOCCs (GCG) approved by the President of the Philippines, including any future amendments and revisions thereof.

3.8 Permanent disqualification of Board members. Unless provided otherwise in PPI's By-Laws, the following persons are disqualified from sitting as members of PPI Board:

- a. Any person finally convicted judicially of an offense involving moral turpitude or fraudulent acts or transgressions.
- b. Any person finally found by a court or administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, or any other law administered by the Securities and Exchange Commission or the Bangko Sentral ng Pilipinas.
- c. Any person judicially declared to be insolvent, spendthrift or incapacitated to contract.
- d. Any person finally found guilty by a foreign court or equivalent administrative agency of acts, violations or misconduct specified in the foregoing paragraphs.
- e. 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/appointment.
- f. A person engaged in any business that competes with or is antagonistic to that of the corporation. Without limiting the generality of the foregoing, a person shall be deemed so engaged:
 - 1) If he is an officer, manager or controlling person of, or the owner (either of record or beneficially) of ten percent (10%) or more of any outstanding class of shares of any corporation (other than one in which the corporation owns at least thirty [30%] of the capital stock) engaged in the business which the Board, by a vote of at least three-fourths (3/4), determines to be competitive or antagonistic to the corporation; or if he is an officer, manager or controlling person of, or
 - 2) If he is the owner (either of record or beneficially) of 10% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business of the corporation, when in the judgment of the Board, by a vote of at least three-fourths (3/4), the laws against combinations in restraint of trade shall be violated by such person's membership in the Board; or



- 3) If the Board, in the exercise of its judgment in good faith, determines by a vote of at least three-fourths (3/4) that he is a nominee of any person set forth in the two preceding paragraphs.

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.

3.9 Temporary disqualification of incumbent Board members. The following are grounds for temporary disqualification of incumbent board members:

- a. Refusal to disclose the extent of his business interest, which is necessary to enable the Board to determine if the member is engaged in a business which competes with or is antagonistic to the corporation. This disqualification is effective as long as his refusal persists.
- b. Absence or non-participation for whatever reason/s 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. This disqualification applies for purposes of the succeeding election.
- c. Dismissal/termination from the Board of another 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 PPI for any reason.
- e. Conviction that has not yet become final referred to in the grounds for permanent disqualification of board members.
- f. If the Board, in the exercise of its judgment in good faith, determines by a vote of at least three-fourths (3/4), that it is to the best interest of PPI to temporarily disqualify a member. Such exercise of judgment must comply with applicable laws, rules and regulations.

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

3.10 Disqualifications of Appointive Directors and CEOs ⁴ – Without prejudice to the above set of disqualifications for Directors, the following are the disqualification rules for Appointive Directors and CEOs:

- a. Permanent Disqualification. - The following individuals are permanently disqualified from appointment or re-appointment, or to continue holding the position of Appointive Director or CEO in any GOCC, as the case may be, thus:

⁴ Article 6, GCG Memorandum Circular No. 2012-05



1. Persons who have been convicted by final judgment of a court or tribunal of:
 - i. a crime or offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery; violation of the Bouncing Checks Law; the Anti-Graft and Corrupt Practices Act; prohibited acts and transactions under Section 7 of the Code of Conduct and Ethical Standards for Public Officials and Employees," violation of banking laws, rules and regulations; Provided, however, that when the penalty imposed in the final judgment of conviction is censure or reprimand, the GCG shall determine from the terms of the judgment whether it shall constitute a ground for permanent or temporary disqualification;
 - ii. a crime or offense where the sentence imposed is a term of imprisonment of at least six (6) years and one (1) day, or 10 Art. 6, GCG Memorandum Circular No. 2012-05. 11 Art. 6.1, GCG Memorandum Circular No. 2012-05.
 - iii. violation of the laws, rules and regulations particularly applicable to the sector under which the Corporation is classified and in other related sectors;
2. Persons who have been judicially declared insolvent, spendthrift or incapacitated to contract;
3. Directors, CEOs and Officers of GOCCS who have been:
 - i. found by a competent administrative body as administratively liable for violation of laws, rules and regulations particularly applicable to the sector of the Corporation, as well as those covered by related sectors, and where a penalty of removal from office is imposed, which finding of the administrative body has become final and executory;
 - ii. determined by the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, to have, by virtue of their office, acquired or received a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the Corporation has an interest, using the rights, options or properties of the Corporation for their own benefit, receiving commission on contracts from the Corporation's assets, or taking advantage of corporate opportunities of the Corporation; or
 - iii. found to be culpable for the Corporation's insolvency, closure, or ceasure of operations, as determined by the GCG in consultation with the appropriate Government Agency;



4. Directors and officers of private corporations, or any person found by the GCG in consultation with the appropriate Government Agency, to be unfit for the position of Appointive Director because they were found administratively liable by such Government Agency for:
 - i. a violation of laws, rules and regulations relevant to the sector of the GOCC concerned, as well as in related sectors; or
 - ii. any offense/violation involving dishonesty or breach of trust; and which finding of such Government Agency has become final and executory.
- b. Temporary Disqualification. - The following individuals are temporarily disqualified from appointment or re-appointment, or to continue holding the position of Appointive Director or CEO in any GOCC, as the case may be, thus:
 1. Persons who refused or failed to fully disclose the extent of their business interest or any Material information to the GCG, the appropriate Government Agency or the GOCC concerned, when required pursuant to the requirements of the Securities Regulation Code, the Corporation Code of the Philippines, or any other relevant provision of law, as well as when required by a circular, memorandum, rule or regulation, applicable to such institutions; and such disqualification shall be in effect as long as the refusal or failure persists;
 2. Appointive Directors who have been absent or who have not participated for whatever reason in more than fifty percent (50%) of all meetings, both regular and special, of the Board during the immediately preceding semester, or who failed to attend for whatever reasons at least twenty-five percent (25%) of all board meetings in any year, Provided, however, that such temporary disqualification applies only for purposes of the immediately succeeding appointment process for a new Term of Office;
 3. Persons who are delinquent in the payment of their obligations as defined hereunder:
 - i. Delinquency in the payment of obligations means the failure to pay according to the terms of the contracted obligation with a GOCC, Subsidiary or Affiliate or with a private corporation, within at least sixty (60) days from formal demand.
 - ii. Obligations shall include all borrowings obtained by:
 - (a) A Director or Officer for his/her own account or as the representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such Institutions;
 - (b) The spouse or child under the parental authority of the Director or Officer;



- (c) Any person whose borrowings or loan proceeds were credited to the account of or used for the benefit of a Director or Officer;
 - (d) A partnership in which a Director or Officer, or his/her spouse, is the managing partner or a general partner owning a controlling interest in the partnership; and
 - (e) A corporation, association or firm wholly-owned or majority of the capital of which is owned, by any or a group of persons mentioned in the foregoing items (a), (b) and(c).
- iii. Such temporary disqualification shall be in effect as long as the delinquency persists.
4. Persons who have been convicted in the first instance by a court for:
- i. any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery;
 - ii. a violation of the Bouncing Checks Law, the Anti-Graft and Corrupt Practices Act," prohibited acts and transactions under Section 7 of the Code of Conduct and Ethical Standards for Public Officials and Employees;
 - iii. a violation of banking laws, rules and regulations; or
 - iv. an offense where the penalty imposed is to serve a maximum term of imprisonment of more than six (6) years but whose conviction has not yet become final and executory; Provided, however, that such temporary disqualification shall automatically cease upon receipt by the GCG of a certified true copy of a judgment amounting to an acquittal.
5. Directors and Officers of private corporations which have been officially declared insolvent, dissolved or closed, pending their clearance by the GCG in consultation with the appropriate Government Agency;
6. Directors disqualified for failure to observe/discharge their duties and responsibilities prescribed under the Ownership and Operations Manual Governing the GOCC Sector, the Code of Corporate Governance for GOCCs, their respective manuals of corporate governance adopted by the GOCCs, or existing rules and regulations of the GCG; and such temporary disqualification applies until the lapse of the specific period of disqualification or upon approval by the GCG of such Directors' appointment or reappointment;
7. Directors who failed to attend within three (3) months from their appointment and assumption of office the public corporate governance seminar for Directors conducted by the GCG or any individual/entity



accredited by the GCG; Provided, however, that such disqualification shall cease when the Director concerned has submitted to the GOCC an official certification that he/she has attended such seminar:

8. Persons dismissed/terminated from employment for just cause; Provided, however, that such temporary disqualification will cease when they have cleared themselves of involvement in the alleged irregularity;
9. Persons who are under preventive suspension, whether it be in the government service or in private sector service; Provided, however, that GCG shall determine from the cause for the preventive suspension whether it shall constitute a ground for temporary disqualification;
10. Persons with derogatory records as certified by, or on the official files of, the Judiciary, the National Bureau of investigation (NBI), the Philippine National Police (PNP), the Ombudsman, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities of foreign countries, for irregularities or violations of any law, rules and regulations that would adversely affect the integrity of the Director, CEO or Officer, or the ability to effectively discharge his/her duties; and this disqualification applies until they have cleared themselves of the alleged irregularities/violations, or after a lapse of five (5) years from the time the complaint, which was the basis of the derogatory record, was initiated; Provided, however, that GCG shall determine from the nature of the derogatory record whether it shall constitute a ground for temporary disqualification;
11. Directors and Officers of private corporations or GOCCS found by the appropriate Government Agency as administratively liable for violation of laws, rules and regulations relevant to the sector of the Corporation, as well as in related sectors, where a penalty of suspension from office or fine is imposed, regardless whether the finding of the appropriate Government Agency is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court; and such disqualification shall be in effect during the period of suspension or so long as the fine is not fully paid; or
12. Persons with conflict of interest as defined under the Code of Conduct and Ethical Standards for Public Officials and Employees and its Implementing Rules and Regulations; and this disqualification applies until the conflict of interest is resolved.

3.11 Fiduciary capacity of Board members. A Board Member assumes a position of trust and confidence and as such, he must act in the best interest of PPI. His actions must be characterized by transparency, accountability, fairness and responsibility and he must exercise leadership, prudence and integrity in directing PPI towards sustained progress over the long term. In this regard, the duties and responsibilities of a PPI Board Member include the following:



- a. Conducting fair business transactions with PPI and ensuring that personal interest does not compromise Board decisions. The basic principle to be observed is that a board member shall not use his position to make profit or to acquire benefit or advantage for himself or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest arises on the part of board members or senior executives, it must be fully disclosed and the concerned director should not participate in the decision-making. A Board Member who has a continuing conflict of interest of a material nature should consider resigning;
- b. Devoting time and attention necessary to the proper discharge of his duties and responsibilities. A Board Member should devote sufficient time to familiarize himself with PPI's business and should be constantly aware of the corporation's condition and be knowledgeable enough to contribute meaningfully to the Board's work. He should attend and actively participate in Board meetings, request and review meeting materials, ask questions, and request explanations;
- c. Acting judiciously. Before deciding on any matter brought before the Board, a Board Member should thoroughly evaluate the issues, ask questions and seek clarifications when necessary;
- d. Exercising independent judgment. A Board Member should view each problem/situation objectively. When a disagreement with other Board Members 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;
- e. Gaining a working knowledge of the statutory and regulatory requirements affecting PPI, including the contents of its Articles of Incorporation and By-Laws, applicable laws, rules and regulations. A Board Member should also keep himself informed of industry developments and business trends in order to safeguard the corporation's competitiveness;
- f. Observing confidentiality. A Board Member 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; and
- g. Ensuring 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: (i) ensuring the presence of organizational and procedural controls, supported by an effective management information system and risk management reporting system; (ii) reviewing conflict-of-interest situations and providing appropriate remedial measures for the same; (iii) when applicable, appointing a President/CEO with the appropriate ability, integrity and experience to fill the role, as well as defining the duties and responsibilities of the President/CEO;



(iv) reviewing proposed key executive appointments; (v) ensuring the selection, appointment and retention of qualified and competent management; and (vi) reviewing PPI's personnel and human resources policies, compensation plan and the management succession plan.

3.12 Collective and individual liability of Board Members. There should be no difference between the liabilities of different Board Members, whether nominated by the government or other shareholders.

Board Members who willfully and knowingly vote or consent to patently unlawful acts of PPI or who are guilty of gross negligence or bad faith in directing the affairs of the corporation or acquire any personal or pecuniary interest in conflict with their duty as such members, shall be liable jointly and severally for all damages resulting therefrom suffered by PPI, shareholders, stakeholders and/or persons, without prejudice to the imposition of criminal or administrative penalties.

In addition, when a Board Member attempts to acquire or acquires, in violation of his duty, any interest adverse to PPI 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 PPI and must account for the profits which otherwise would have accrued to PPI.

Any Board Member who enters into a transaction or contract grossly disadvantageous to the government, whether he profited from it or not, shall be liable for violation of Republic Act No. 3019 or the Anti-Graft and Corrupt Practices Act.

Without prejudice to the preceding paragraph, the following Articles 27.3 and 27.4 of the GCG Code of Governance shall be adopted:

27.3. Taking of Corporate Opportunities. - Where a Director or an Officer, by reason of his being a member of the Board or an Officer of a GOCC, acquires or receives for himself/herself a benefit or profit of whatever kind or nature, including but not limited to, the acquisition of shares in corporations where such GOCC has an interest, the use the properties of the GOCC for his/her own benefit, the receipt of commission(s) on contract(s) with the GOCC or its assets, or the taking advantage of corporate opportunities of the GOCC, all such profits or benefits shall be subject to restitution pursuant to Section 24 of the Act, without prejudice to any administrative, civil or criminal action against members of the such Director or Officer. The remedy of restitution shall apply notwithstanding the fact that such Director or Officer risked his/her own funds in the venture."

27.4. Restitution. - Pursuant to Section 24 of the Act, upon the determination and report of the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, that properties or monies belonging to the GOCC are in the possession of a Director or Officer of a GOCC without authority, or that profits are earned by the Director or Officer in violation of his/her fiduciary duty, or the aggregate per diems, allowances and incentives



received in a particular year are in excess of the limits provided under the Act, the Director or Officer receiving such properties or monies shall immediately return the same to the GOCC.

Failure by a Director or Officer to make the restitution within thirty (30) days after a written demand has been served shall, after trial and final judgment, subject such Director or Officer to the punishment of imprisonment for one (1) year and a fine equivalent to twice the amount to be restituted and, in the discretion of the court of competent jurisdiction, disqualification to hold public office.

3.13 Exercise of objective and independent judgment. Unless otherwise provided in the By-Laws of PPI, good practice calls for the separation of the positions of Chairman and President/Chief Executive Officer (“CEO”) to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. However, 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.

In addition, unless otherwise provided in the By-Laws of PPI, a central requirement to enhance the objectivity of PPI Board is to nominate a sufficient number of competent non-executive board members who are capable of independent judgment. These independent board members should have the relevant competence and experience and it is advisable that they be recruited from the private sector. They must also comply with the following requirements:

- a. Independent board members shall hold no interests or relationships with PPI that may hinder their independence from PPI or its management and which may interfere with the exercise of independent judgment in carrying out their responsibilities.
- b. An independent board member shall submit to the Corporate Secretary a letter of confirmation stating that he holds no interests affiliated with PPI, its management or controlling shareholder at the time of his election or appointment and/or re-election.
- c. Officers, executives and employees of PPI shall not be characterized as independent board members.
- d. If a person elected or appointed as an independent board member subsequently becomes an officer or employee of PPI, PPI shall forthwith cease to consider him as an independent board member.
- e. If the beneficial ownership of an independent board member in PPI or in its related companies shall exceed the 10% limit, PPI shall forthwith cease to consider him as an independent board member.

PPI shall, as appropriate, provide independent board members with technical support staff to assist them in performing their duties. Independent board



members may, when necessary, also request and receive support from officers, employees or outside professionals such as auditors, advisers and counsel to perform such duties. PPI shall cover the reasonable expenses of providing such support.

Mechanism to evaluate and maintain the effectiveness of Board performance and independence should be developed. These include, for example, limits on the possible number of reappointments and resources granted to the board members.

3.14 Policy on Multiple Board Seats

The capacity of Appointive Directors to serve with diligence shall not be compromised. As such no Appointive Director may hold more than two (2) board seats in other GOCCs, Subsidiaries and/or Affiliates

3.15 List of Disclosures to be made by Directors

1. Resume and membership in Board Committees
2. Complete compensation package, including travel, representation, transportation and any other form of expenses or allowances;
3. Attendance record in Board and Committee meetings; and
4. Conflict of Interest.

3.16 Statement of Responsibility for Financial Statements.

The Board of Directors is responsible for all information and representation as contained in PPI's financial statements. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of the Board with an appropriate consideration to materiality. The Board of Directors reviews the financial statements before such statements are approved and submitted to the stakeholders of the company.

3.17 Penalties for Non-Compliance with the Manual apply to Directors

Each member of the Board of Directors herein acknowledges his responsibility to strictly observe and implement the provisions of this Manual and the imposition of the penalties provided in the PPI Revised Rules on Administrative Cases, existing laws, rules and regulations, in case of violation of any of the provisions of this Manual. Applicable procedures consistent with the law and jurisprudence shall be followed in the case of PPI Directors' non-compliance with the Manual.

3.18 Specialized committees. When necessary, PPI Board shall set up specialized committees to support the Board in the performance of its functions. When the creation of specialized committees is not mandated by law



or by the By-Laws of PPI, the Board should define the cases in which said committees may be considered by using a combination of criteria, including the size of PPI. It is essential that specialized committees are chaired by a non-executive and include a sufficient number of independent members. The existence of specialized committees should not excuse the Board from its collective responsibility for all matters. Specialized committees should have written terms of reference that define their duties, authority and composition. Specialized committees should report to the Board and the minutes of their meetings should be circulated to all Board Members.

As a minimum, however, PPI Board shall be supported by the following specialized committees:

a. Executive Committee

The Board shall appoint from among its members an Executive Committee composed of three (3) members, two (2) of whom shall be nominated by directors representing majority stocks and one (1) by directors representing minority stocks. The President/CEO of PPI shall act as the Chairman of the Executive Committee.

The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by a vote of the three (3) members on such specific matters within the competence of the Board as may from time to time be delegated to the Executive Committee in accordance with the corporation's By-Laws, except with respect to (a) approval of any action for which shareholders' approval is also required; (b) the filing of vacancies in the Board or in the Executive Committee; (c) the amendment or repeal of By-Laws or the adoption of new By-Laws; (d) the amendment or repeal of any resolution of the Board which by its express terms is not amendable or repealable; (e) the distribution of cash dividends; and (f) the exercise of powers delegated by the Board exclusively to other committees, if any.

All decisions of the Executive Committee shall require the affirmative vote of the three (3) members. 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.

b. Audit and Risk Management Committee

There shall be an Audit and Risk Management Committee composed of three (3) members. The independent board member, if any, shall chair the Audit Committee. Each member shall have an adequate understanding of accounting and auditing principles in general and of the corporation's financial management systems and environment in particular.



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

- 1) Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements;
- 2) Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the corporation, and crisis management. This function shall include receiving from senior management periodic information on risk exposures and risk management activities;
- 3) 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;
- 4) Ensure that internal auditors have free and full access to all the corporation'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;
- 5) Oversee PPI's internal control system and coordinate with the Commission on Audit;
- 6) Elevate to international standards the accounting and auditing processes, practices and methodologies;
- 7) Develop a transparent financial management system that will ensure the integrity of internal control activities throughout PPI through a procedures and policies handbook that will be used by the entire organization;
- 8) Ensure that management is taking appropriate corrective actions in a timely manner in addressing control and compliance functions with regulatory agencies; and
- 9) Review the quarterly, half-year and annual financial statement 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 and COA requirements.
- 10) Developing the Risk Management Policy of the Corporation, ensuring compliance with the same and ensure that the risk management process



and compliance are embedded throughout the operations of the Corporation, especially at the Board and Management level; and

- 11) Providing quarterly reporting and updating the Board on key risk management issues as well as ad hoc reporting and evaluation on investment proposals.

c. Good Governance Committee

There shall be a Good Governance Committee which shall consist of at least three (3) members who shall assist the Board of Directors in fulfilling its corporate governance responsibilities. The Committee shall be responsible for the following:

- 1) Overseeing the periodic performance evaluation of the Board and its committees and Management; the periodic evaluation of the Appointive and Ex Officio shall be in accordance with the GCG Memorandum Circular No. 2014-03 [Performance Evaluation for Directors (PED) in the GOCC Sector] dated 07 April 2014;
 - i. Deciding whether or not a Director is able to and has been adequately carrying out his/her duties as director bearing in mind the director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). Internal guidelines shall be adopted that address the competing time commitments that are faced when directors serve on multiple boards;
 - ii. Recommending to the Board regarding the continuing education of Directors, assignment to Board Committees, succession plan for the Executive Officers, and their remuneration commensurate with corporate and individual performance; and
 - iii. Recommending the manner by which the Board's performance may be evaluated and proposing objective performance criteria to be approved by the Board. Such performance indicators shall address how the Board will enhance long-term shareholder value.

d. Nominations Committee

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

- 1) Install and maintain a process to ensure that all board members to be nominated for election at the next Annual General Shareholders' Meeting have the qualifications and none of the disqualifications stated above;



- 2) Encourage the selection of a mix of competent board members, each of whom can add value and create independent judgment as to the formulation of sound corporate strategies and policies; and
- 3) Review and evaluate the qualifications of all persons nominated to positions in the corporation which require appointment by the Board.

3.19 Periodic Performance Evaluation for Directors (PED). The overall performance of all Appointive and Ex Officio Directors or their Alternates shall be evaluated in accordance with the GCG Memorandum Circular No. 2014-03 [Performance Evaluation for Directors (PED) in the GOCC Sector] dated 07 April 2014. The PED covers the Appointive Directors for the determination of whether they shall be recommended for reappointment. The PED also covers the Ex Officio Directors or their Alternates for purposes of being able to report to the President the performance of such Ex Officio Directors.

IV. MANAGEMENT

The Management stands as the center of decision-making for the day-to-day affairs of PPI. It determines PPI's activities by putting its targets in concrete terms and by implementing basic strategies for achieving these targets. It also puts in place the infrastructure for the corporation's success by establishing the following mechanisms in its organization: organizational structures that work effectively and efficiently in attaining the goals of the corporation; useful planning, control, and risk management systems that assess risks on an integrated cross-functional approach; information systems that are defined and aligned with an information technology strategy and the business goals of the corporation; and a plan of succession that formalizes the process of identifying, training and selection of successors in key positions in the corporation.

Subject to the provisions of PPI By-Laws, this Manual and in accordance with existing laws, the over-all management, supervision and control of the operations, properties and affairs of the Corporation shall be vested in its Board of Directors.

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

4.2 Executive officers. The Executive officers of the Corporation shall consist of a President and Chief Executive Officer (CEO), an Executive Vice-President, Treasurer, Comptroller, Corporate Secretary and Assistant Corporate Secretary, who shall discharge the functions set forth in the By-Laws of the Corporation and in this Manual, and such other functions as may be delegated to them by the Board of Directors. The Management of the day-to-day affairs of the Corporation shall rest in the following executive officers who shall, subject to the provisions of PPI's By-Laws, be appointed by the Board:

President & CEO;



Executive Vice-President;
Treasurer;
Comptroller;
Corporate Secretary;
Assistant Corporate Secretary;
Compliance Officer

The Board of Directors may appoint such other officers whose powers and functions shall be determined by the Board of Directors.

a. President/CEO

The President/CEO is accountable for PPI's organization and procedural controls. In addition to the duties imposed on him by the Board, the President/CEO shall:

- 1) Exercise general supervision and authority over the regular course of the business, affairs, and property of PPI, and over its employees and officers;
- 2) See to it that all orders and resolutions of the Board are carried into effect;
- 3) Submit to the Board as soon as possible after the close of each fiscal year, and to the shareholders at the annual meeting, if applicable, a complete report of the operations of PPI for the preceding year, and the state of its affairs; and
- 4) Report to the Board from time to time all matters which the interest of PPI may require to be brought to its notice.

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

b. Executive Vice-President

The Executive Vice-President shall hold office at the pleasure of the Board, and shall exercise such functions and perform such duties as may be prescribed by the Board and/or delegated by the President.

c. Treasurer

The Treasurer of PPI shall have charge of the funds, securities, receipts and disbursements of the corporation. Unless otherwise provided in the By-Laws, the Treasurer shall have the following functions:



- 1) Deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of PPI in compliance with applicable laws, rules and regulations;
- 2) Regularly and at least every quarter render to the President/CEO or to the Board an account of the fund condition of the company and all of his transactions as such;
- 3) Ensure fund availability on a timely basis and at the most economical means;
- 4) Optimize yields in temporary excess funds, but at the same time ensure the implementation of appropriate risk management measures over its resources;
- 5) Provide relevant and timely financial market information; and
- 6) Ensure appropriate coverage and management risk to resources.

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

d. Comptroller

The Comptroller who may also be the Treasurer of the corporation shall be responsible for the following:

- 1) Provide management with accurate, relevant, and timely operating and financial reports and analysis necessary for financial planning and strategy formulation, and monitor actual implementation of budgets, plans and programs towards the achievement of corporate goals;
- 2) Maintain the integrity of accounting records as the basis of the financial statements and reports provided to Management for decision-making and to government regulatory bodies in compliance with statutory requirements;
- 3) Promote investor and public confidence in PPI by addressing the various information requirements of the investing public and ensuring that all other legal reportorial obligations to the concerned agencies are complied with; and
- 4) Strengthen internal controls by monitoring compliance with policies and recommending to Management appropriate actions and changes in systems and procedures in the exigencies of the service.

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



e. Corporate Secretary

The Corporate Secretary shall be a resident and citizen of the Philippines. He or she must possess organizational and interpersonal skills, and the legal skills of a chief legal officer. The Corporate Secretary shall have the following functions:

- 1) Serve as an adviser to the Board Members on their responsibilities and obligations;
- 2) Keep the minutes of meetings of the shareholders, the Board, the Executive Committee, and all other committees in a book or books kept for that purpose, and shall furnish copies thereof to the Chairman, the President/CEO and other members of the Board as appropriate;
- 3) Keep in safe custody the seal of the corporation and affix it to any instrument requiring the same;
- 4) For stock corporations, have charge of the stock certificate book and such other books and papers as the Board may direct;
- 5) Attend to the giving and serving of notices of Board and shareholders meetings, if applicable;
- 6) Be fully informed and be part of the scheduling process of other activities of the Board;
- 7) Prepare an annual schedule of Board meetings and the regular agenda of meetings, and put the Board on notice of such agenda at every meeting;
- 8) Oversee the adequate flow of information to the Board prior to meetings; and
- 9) Ensure fulfillment of disclosure requirements to regulatory bodies.

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

f. Assistant Corporate Secretary

The Assistant Corporate Secretary shall assist the Corporate Secretary in its functions listed above.

g. Compliance Officer

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



- 1) Monitor compliance by the Corporation of the requirements under R.A. No. 10149, the Code of Corporate Governance, the rules and regulations of the appropriate Government Agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation;
- 2) Appear before the GCG when summoned in relation to compliance with the Code of Corporate Governance or other compliance issues; and
- 3) Issue a certification every 30 May of the year on the extent of the Corporation's compliance with the government corporate standards governing GOCCs for the period beginning 01 July of the immediately preceding calendar year and, if there are any deviations, explain the reason for such deviation.

The appointment of a Compliance Officer shall not relieve the Governing Board of its primary responsibility vis-à-vis the State, acting through the GCG, to ensure that the Corporation has complied with all its reportorial, monitoring and compliance obligations.

4.3 Board of Directors' Approval. Unless the PPI By-Laws or the laws of the Philippines provide otherwise, the affirmative vote of a majority of the whole number of members of the Board of Directors during a meeting, at which there is a quorum, shall be sufficient to constitute a valid corporate act.

V. GOVERNANCE POLICY ON CONFLICT OF INTEREST

Public policy dictates that the personal interest of board members and officers should never prevail over the interest of PPI. As such, Board Members and officers may not directly or indirectly derive any personal profit or advantage by reason of their position in the corporation.

5.1 Determination of conflict of interest. A conflict of interest exists when a Board Member or officer of PPI:

- a. Supplies or is attempting or applying to supply goods or services to PPI;
- b. Supplies or is attempting to supply goods, services or information to an entity in competition with PPI;
- c. By virtue of his office, acquires or is attempting to acquire for himself a business opportunity which should belong to PPI;
- d. Is offered or receives consideration for delivering PPI's business to a third party; and
- e. Is engaged or is attempting to engage in a business or activity which competes with or works contrary to the best interests of PPI.

5.2 Disclosure of Conflict of Interest. If an actual or potential conflict of interest should arise on the part of board members, it should be fully disclosed and the concerned Board Member should not participate in the decision-making. A



Board Member 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.

VI. PROTECTION OF SHAREHOLDERS' RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

The Manual protects and facilitates the exercise of shareholders' right in PPI. It ensures the equitable treatment of all shareholders, including minority shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

6.1 PPI should protect the rights of shareholders. Whenever a part of PPI's capital is held by private shareholders, institutional or individual, the government and PPI recognize their rights, including the right to secure methods of ownership registration; convey or transfer shares; obtain relevant and material information on PPI on a timely and regular basis; participate and vote in general shareholder meetings; elect and remove members of the board; and share in the profits of PPI.

In particular, the Corporation Code grants the following rights to shareholders:

- a. The right to elect, remove and replace board members and vote on certain corporate acts in accordance with the Corporate Code;
- b. Pre-emptive rights, unless there is a specific denial of this right in the Articles of Incorporation or an amendment thereto. Shareholders shall have the right to subscribe to the capital stock of PPI. 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;
- c. The right to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code. Shareholders have the right to be furnished with PPI's annual report, including financial statements, without cost or restrictions. Upon request and for a legitimate purpose, a shareholder shall be provided with periodic reports which disclose personal and professional information about the board members and officers and certain other matters such as their holdings of PPI's shares, dealings with PPI, relationships among board members and key officers, and the aggregate compensation of board members and officers;
- d. For minority shareholders, the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes. In accordance with existing law and jurisprudence, minority shareholders shall have access to any and all information relating to matters for which the Management is accountable for and to those relating to matters for which the Management should include



such information and, if not included, then the minority shareholders can propose to include such matters in the agenda of shareholders' meeting provided always that this right of access is conditioned upon the requesting shareholder's having a legitimate purpose for such access;

- e. The right to receive dividends subject to the discretion of the Board. By law, however, PPI may be directed 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 a special reserve for probable contingencies; and
- f. 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 shareholders 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.

6.2 Duty of PPI Board to promote shareholders' rights. It is the duty of the Board to promote shareholders' rights, remove impediments to the exercise of shareholders' rights and provide effective redress for violation of these rights.

6.3 High degree of transparency towards all shareholders. A crucial condition for protecting minority and other shareholders is to ensure a high degree of transparency. Minority and other shareholders should have access to all the necessary information to be able to make informed investment decisions. Any shareholder agreements, including information agreements covering board members, should be disclosed.

6.4 Active communication and consultation with all shareholders. They should identify their shareholders and keep them duly informed in a timely and systematic fashion about material events and forthcoming shareholder meetings. They should also provide them with sufficient background information on issues that will be subject to decision. It is the responsibility of the PPI Board to make sure that the corporation fulfills its obligations in terms of information to the shareholders. The participation of minority shareholders in shareholder meetings should be facilitated in order to allow them to take part in fundamental corporate decisions such as board election.



VII. RELATIONS WITH STAKEHOLDERS

PPI recognizes the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between PPI and its stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

7.1 Recognition and respect of stakeholders' rights established by law or through mutual agreements. As a dominant shareholder, the State may control corporate decision-making and be in a position to take decisions to the detriment of stakeholders. As such, PPI shall establish mechanisms and procedures to protect stakeholder rights. Recognizing the vital contribution of its stakeholders, PPI shall ensure that stakeholders have access to relevant, sufficient and reliable information on a timely and regular basis to be able to exercise their rights. Stakeholders should have access to legal redress in the event their rights are violated.

7.2 Duty of PPI to report on stakeholder relations. PPI shall communicate with investors, stakeholders and the public at large on their stakeholder policies and provide information on their effective implementation. PPI shall allow its stakeholder reports to be independently scrutinized in order to strengthen their credibility.

7.3 Development, implementation and communication of compliance programs for internal codes of ethics. The PPI Board shall apply high ethical standards in the organization with checks and balances that will ensure the corporation is protected from deviation from these standards in the course of the interaction of business considerations with political and public policy ones. PPI shall develop an internal code of ethics that would give clear and detailed guidance as to the expected conduct of all employees and disciplinary measures for non-compliance therewith. The internal code of ethics should include guidance on procurement processes, as well as develop specific mechanisms protecting and encouraging stakeholders, and particularly employees, to report on illegal or unethical conduct by corporate officers. It is considered as a good practice for these codes to be developed in a participatory way in order to involve all the employees and stakeholders concerned. These codes should also be fully supported and implemented by Management.

7.4 Duty to safeguard shareholders. — The Board of Directors and officers of PPI must, at all times, be accountable to the people, serve them with utmost responsibility, integrity, loyalty, and efficiency; act with patriotism and justice, and lead modest lives. In order to promote integrity, accountability, proper management of public affairs, Republic Act No. 9485 otherwise known as the Anti-Red Tape Act of 2007 mandates the re-engineering/simplification of systems and processes/procedures to ensure delivery of fast, efficient, convenient and reliable service. To this end, the following shall be implemented:



1. There shall be created and implemented a service standard (citizen's charter) and posted in the PPI website and conspicuous places within the agency to enumerate/describe in simple terms the step-by-step procedure for availing any and all services offered by PPI to the public including standards to guarantee performance level that the public may expect for any particular service, such as but not limited to:
 - i. The procedure to obtain a particular service;
 - ii. The person/s responsible for each step;
 - iii. The maximum time to conclude the process;
 - iv. The document/s to be presented by the customer, if necessary;
 - v. The amount of fees, if necessary; and
 - vi. The procedure for filing complaints.

7.5 Hierarchy of stakeholders. —the Board and Management shall observe the following hierarchy of stakeholders: (1) The Government; (2) PPI Clients; (3) PPI Workforce; (4) Suppliers/Service Providers; and (5) Oversight/ Regulatory Authorities; provided, that in resolving conflict of interest by, between and among each category of stakeholders, the Government's interest and exercise of ownership over the PPI shall, at all instance, be preferred, promoted and protected.

7.6 Relations and communication plan for stakeholders.

1. The Government.

As a Government Owned and Controlled Corporation (GOCC) created under BP 68, The Corporation Code of the Philippines, PPI owes its fidelity, first and foremost, to the Government, its shareholders, Philippine International Trading Corporation (PITC) and National Development Company (NDC). To this end, PPI shall, at all times, promote and protect the best interest of the Government in all its dealings. All conflict of interest by, between and among the category of stakeholders herein enumerated, as far as practicable and when legally allowed, shall be resolved in favor of the Government as the owner of PPI.

a. What is expected of PPI by the Government?

- i. To comply with the laws, rules, regulation, policies and directives issued by the Government including lawful orders of local Courts and quasi-judicial bodies;
- ii. To align its strategic goals and programs towards the attainment of its social mandate, which is to provide low priced quality essential medicines to improve the health condition of the Filipino People.



- iii. To promptly and diligently settle its statutory obligations to help raise revenues for its nation building.

b. What is expected by PPI from the Government?

- i. Support its procurement activities and fulfillment of its mission to provide low priced quality essential medicines.

c. Means of dialogue

- i. Official communications (Memorandum Circulars, Joint Circulars, Executive Order, etc.);
- ii. Dialogues and regular contacts through the emails, telephone, etc.;
- iii. Meetings/seminars/workshop for agencies under the Department of Trade and Industry and Department of Health.

2. PPI Clients

PPI's mandate is defined under the Implementing Rules and Regulations (IRR) of the Universally Accessible Cheaper and Quality Medicines Act of 2008, otherwise known as Republic Act No. 9502. PPI's clients range from National Government Agencies, Local Government Units, Public Health Facilities and the like.

a. What is expected of PPI by the Clients?

- i. Establish a common facility for pooled procurement. → Chapter XI, Rule 58 of the IRR states that: "The PPI or its equivalent agency is authorized to establish a common facility for pooled procurement in compliance with RA 9184."
- ii. Undertake direct importation for government agencies and offer the same facility to private parties. → Chapter III, Rule 16, Section 1 of the IRR states that: "Except for specific programs and instances allowed by the DOH, for purposes of ascertaining the best and most affordable prices and quality of drugs and medicines to be imported, all government agencies must centrally procure through PPI." → Private parties may opt to avail of PPI's facility for undertaking "procurement, sourcing and marketing of quality essential and low priced medicines."
- iii. Assist in the implementation of cost-containment measures i.e., support hospital pharmacies, making available low cost quality medicines and rational and complete drug treatment packs.

b. What is expected by PPI from the clients?

- i. Source its pharmaceutical requirements from PPI and support its mission to provide low priced quality essential medicines.



c. Means of dialogue

- i. Official communications (Letters and Memoranda)
- ii. Dialogues and regular contacts through the emails, telephone, etc.;
- iii. Meetings

3. PPI Workforce

The engagement of PPI's workforce is not only necessary but crucial in the attainment of the agency's targets considering that its personnel are its most important resource. To this end, the Board and Management will strive to address the general working condition of employment including provision for programs that will align individual performance towards the attainment of the agency's targets.

a. What is expected of PPI by its workforce?

- i. Regular cascading of PPI's strategic objectives (targets, plans, programs and policies affecting its workforce);
- ii. Provision for a strategic performance management system (SPMS) that will align individual performance towards the attainment of PPI's strategic organizational goals, programs and projects including a performance based incentive plan;
- iii. Provision for continuing human resource development programs which aim to enhance employees/officers competencies and skills based on the agency's operational requirements;
- iv. Observance of the grievance machinery aimed at addressing issues on working conditions, economic and non-economic benefits including a forum to air legitimate grievances, suggestions and other employees concerns; and
- v. Regular dialogue and consultation.

b. What is expected by PPI from its workforce?

- i. An engaged workplace.- An engaged workplace is one where officers and employees know more, do more and willingly contribute to the success of PPI in fulfilling its mandate and social functions such that, each officer and employee knows: (1) Office rules, relationship and complementary services of each and every office within PPI;
- ii. Knows their customers and their expectations of the quantity, quality and promptness in delivering services.



c. Projects or programs

- i. Fund provision for cascading programs to inform/orient employees on the agency's annual strategic corporate plans consistent with the GCG's approved Performance Agreement Negotiation (PAN) including strategy map and balanced score card, etc.;
- ii. Publication of this MANUAL including performance agreements and related documents submitted to GCG by PPI to all of its officers and employees in PPI's Website.
- iii. Seminars, trainings and workshops to re-tool personnel and acquire new knowledge and skills to be able to discharge their new functions;
- iv. Mandatory implementation of the Civil Service Commission (CSC) approved Strategic Performance Management System (SPMS) (i.e. target based performance evaluation and incentive program which aim to align individual performance towards the attainment of the agency's strategic targets and programs) effective January 2016;

d. Means of dialogue

- i. PPI official website: www.pitcpharma.com.ph for announcements, transparency seal, others relevant information about programs and activities of PPI affecting its workforce);
- ii. Provision for publication of contact numbers including e-mail addresses of the Board and Key Officers of PPI so employees can ventilate their concerns in their chosen medium of communication;
- iii. Intranet and webmail provision and access for all officers and employees;
- iv. Regular Sector/Departmental/Division/staff meetings;
- v. Administrative issuances (Board Resolutions, Special Orders, Memorandum Orders and Guidelines or Implementing Rules);
- vi. Bulletin Boards and suggestion boxes; and
- vii. From time to time, the Management calls for Employees General Assembly to address pressing employees concern/s.

4. Suppliers/Service Providers.

PPI shall aim to develop relationship and improve its networking with its business suppliers and/or service providers based on mutual trust.

For this purpose, all suppliers and service providers shall be engaged competitively keeping in mind the most advantageous terms for the



Government and in all instances, in compliance with applicable procurement laws, rules and regulation. Thus, diligence shall be observed in the selection of PPI suppliers and service providers, emphasis shall be had to ascertain their track record and the quality of the products / services offered

a. What is expected of PPI by its suppliers and service providers?

- i. Long term business relation thru the supply and delivery of all product / service requirements of PPI.

b. What is expected by PPI from its suppliers and service providers?

- i. Timely, reliable and efficient delivery of products and services.
- ii. That the goods and services delivered are according to specifications, terms and conditions of the contract, consistent with applicable procurement laws, rules and regulation and necessarily include the standard warranty that the goods delivered are free from any hidden faults or defects, or any charge or encumbrance not declared or known to PPI.

c. Projects or programs

- i. Strict compliance with the laws, rules and regulation on Government Procurement for goods, consulting services and infrastructure projects;
- ii. Disclosure in transparency in PPI's annual procurement plan and procurement activities;
- iii. Mandatory publication in PhilGEPS and PPI Website of all procurement activities of PPI.

d. Means of dialogue

- i. Posting/publication of PPI's annual procurement plan and activities in the official website (www.ppi.com.ph);
- ii. Posting/publication of all PPI procurement activities in PhilGEPS;
- iii. Provision for the conduct of Pre-Bid Conference of all items for public bidding including mandatory Post-Qualification activities.

5. Oversight/Regulatory Authorities

The Commission on Audit, Governance Commission for GOCCs under Republic Act 10149, Philippine International Trading Corporation, National Development Company, including the Department of Health, Food Development Authority and the like serve as PPIs oversight and regulatory authorities. These offices were created by law to deal with specific issues of



priority for service delivery, simplification of processes, public accountability and transparency including good governance initiatives and proper implementation of PPI programs/projects.

a. What is expected of PPI by oversight bodies and/or regulatory authorities?

- i. For PPI to diligently comply with all laws including the rules and regulations issued by its oversight and/or regulatory authorities;
- ii. For PPI to deliver truthful, adequate and timely reports which are required and/or prescribed by As such, PPI shall diligently comply with all rules and regulation issued by its oversight and/or regulatory authorities.

b. What is expected by PPI from oversight bodies and/or regulatory authorities?

- i. Support in the conduct of its procurement activities activities including the delivery of its products to its clients and ultimately the social services for the Filipino people.

c. Projects or programs

- ii. Submission of annual reports to oversight bodies and other documentary requirements and/or reports;
- iii. Regular meetings and consultations.

d. Means of dialogue

- i. Dialogues and regular contacts through the emails, telephone, website, etc.;
- ii. Official communications (Memorandum Circulars, Joint Circulars, Executive Order, etc.);
- iii. Performance Agreement Negotiation (PAN), etc.;

7.7 CSR Principles.

PPI, as a government owned and controlled corporation, is mandated to be socially responsible, and shall therefore act and operate as a good corporate citizen. The Governing Board shall recognize and perform the obligations PPI has towards the National Government, together with the employees, suppliers, customers and other Stakeholders, and the communities in which it operates.

In addition, PPI's Corporate Social Responsibility (CSR) programs are primarily anchored on its mission as a partner of the Philippine government in providing low cost quality medicines to the Filipino People. At present, PPI partners with Government Agencies, LGUs and other Private Companies in providing



products i.e. Vaccines, Oncology Medicines, Emergency Kits and other generic medicines to its beneficiaries.

The Directors, Officers and all its employees are required to abide by ethical policies mandated by the GCG. The protection of the reputation and goodwill of PPO is of fundamental importance, and Directors, Officers and employees should be aware of the disciplinary implications of breaches of policy.

Every member of PPI is encouraged to promptly report any potentially illegal, improper and/or unethical conduct that they become aware of at their workplace or in connection with their work. PPI should have an environment that enables its officers and employees to raise genuine and legitimate concerns internally. However, in the event that the officers and employees of PPI, and/or the stockholders believe their reporting to management may result in harassment, or undue distress, they may contact the GCG support to report such matters. The GCG provides for an opportunity for concerns to be investigated and ensures appropriate action is taken to resolve the matter effectively.

VIII. DISCLOSURE AND TRANSPARENCY

As a dominant shareholder, the government is in many cases able to make decisions in general shareholders meetings without the agreement of any other shareholders. It is usually in a position to decide on the composition of the board of directors. While such decision making power is a legitimate right that follows with ownership, it is important that the government does not abuse its role as a dominant shareholder, for example by pursuing objectives that are not in the interest of PPI and thereby to the detriment of other shareholders. Abuse can occur through inappropriate related party transactions, biased business decisions or changes in the capital structure favoring controlling shareholders. As such, PPI shall continue to enhance disclosure and transparency, and impose a duty of loyalty of Board Members, as well as qualified majorities for certain shareholder's decisions, for the protection of other shareholders and the public in general.

Timely and accurate disclosure shall be made on all material matters regarding PPI, including its financial situation, performance, ownership, and governance.

8.1 Disclosure on material information. PPI shall make a disclosure on, among others, the following material information:

- a. PPI objectives and their fulfillment.** When the government is the majority shareholder or effectively controls PPI, company objectives shall be made clear to all other investors, the market and the general public. PPI shall report on how it fulfills its objectives by disclosing key performance indicators. When PPI is also used for public policy objectives, such as general services obligations, it should also report on how these are being achieved.
- b. Ownership and voting structure of PPI.** PPI shall clarify who retains legal ownership of the government's shares and where the responsibility for



exercising the government's ownership rights is located. Any special rights or agreements that may distort the ownership or control structure of PPI should be disclosed.

- c. Any material risk factors and measures taken to manage such risks.** PPI acknowledges the importance of disclosing material risk factors. Without adequate reporting of material risk factors, PPI may give a false representation of their financial situation and overall performance. Appropriate disclosure by PPI of the nature and extent of risk incurred in their operations requires the establishment of sound internal risk management systems to identify, manage, control and report on risks. Public-private partnerships shall also be adequately disclosed as such ventures are often characterized by transfers of risks, resources and rewards between public and private partners for the provision of public services or public infrastructure and may consequently induce new and specific material risks.
- d. Any financial assistance, including guarantees, received from the government and commitments made on behalf of PPI.** To give a fair and complete picture of PPI's financial situation, the mutual obligations, financial assistance or risk sharing mechanisms between the government and PPI shall be appropriately disclosed. Disclosure should include details on any government grant or subsidy received by PPI, any guarantee granted by the government to PPI for its operations, as well as any commitment that the government undertakes on behalf of PPI.
- e. Any material transactions with related entities.** Transactions between PPI and related entities, such as an equity investment of PPI in another shall be disclosed. Reporting on transactions with related entities shall provide all information that is necessary for assessing the fairness and appropriateness of these transactions.

PPI shall also disclose information on its financial and operating results; the remuneration policy for members of the Board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the Board; related party transactions; issues regarding employees and other shareholders; and governance structures and policies and the process by which they are implemented.

8.2 Development of internal audit procedures. PPI shall develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the Board and its Audit Committee.

8.3 Conduct of an independent external audit based on international standards. PPI shall undergo an annual independent external audit based on international standards. PPI is not necessarily required to be audited by external, independent auditors. This is because specific government audits provided by the Commission on Audit, which assigns resident auditors to PPI,



are deemed sufficient to guarantee the quality and comprehensiveness of accounting information on PPI. However, these specific government audits are designed to monitor the use of public funds and budget resources, rather than the operations of the state-owned enterprise as a whole. Thus, to reinforce trust in the information provided, the government should require that, in addition to special government audits, at least all large Government Corporations should be subjected to external audits that are carried out in accordance with international standards.

8.4 Observance of the highest quality accounting and auditing standards. PPI shall take all measures to be as transparent as publicly listed companies. It shall disclose financial and non-financial information according to high quality internationally recognized standards. A high level of disclosure is also valuable for PPI in pursuing important public policy objectives. It is particularly important when they have a significant impact on the National Budget, on the risks carried by the government, or when they have a more global societal impact.

IX. COMMUNICATION

9.1 Communication within the organization. The Board and Management shall ensure the thorough dissemination of this Manual to all employees and third parties, and shall enjoin the development of organizational policies and processes consistent with this Manual.

9.2 Education on the Manual of Corporate Governance. Funds shall be allocated for the conduct of an orientation program to operationalize this Manual and for the continued education and training of all officers and employees to ensure compliance with this Manual. Each Board Member is enjoined to attend the relevant education programs on corporate governance conducted by duly recognized private or government entities.

RECOMMENDING APPROVAL BY:

PPI BOARD OF DIRECTORS

ATTY. AURORA MARIA F. TIMBOL
Member

JOSE A. CAPISTRANO, JR.
President and CEO

MARIA LOURDES T. BAUA
Vice Chairperson

MA. LOURDES F. REBUENO
Chairperson



APPROVED BY:

GOVERNANCE COMMISSION FOR GOCCS

CESAR L. VILLANUEVA
Chairman

MA. ANGELA E. IGNACIO
Commissioner

RAINIER B. BUTALID
Commissioner