

NOW CORPORATION

REVISED MANUAL

ON

CORPORATE GOVERNANCE

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REVISED MANUAL ON CORPORATE GOVERNANCE

Article 1: Definition of Terms

1. **Corporate Governance** - the framework of rules, systems and processes in the Corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which it operates;
2. **Board of Directors** - the governing body elected by the stockholders that exercises the corporate powers of the Corporation, conducts all its business and controls its properties;
3. **Exchange** - an organized market place or facility that brings together buyers and sellers, and executes trades of securities and/or commodities;
4. **Management** - the body given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the Corporation;
5. **Independent director** - a person who, apart from his fees and share holdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director;
6. **Executive director** - a director who is also the head of a department or unit of the Corporation or performs any work related to its operation;
7. **Non-executive director** - a director who is not the head of a department or unit of the corporation nor performs any work related to its operation;
8. **Non-audit work** - the other services offered by an external auditor to the Corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor;
9. **Internal control** - the system established by the Board of Directors and Management for the accomplishment of the Corporation's objectives, the efficient operation of its business, the reliability of its financial reporting, and faithful compliance with applicable laws, regulations and internal rules;
10. **Internal control system** - the framework under which internal controls are developed and 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 Corporation is exposed;
11. **Internal audit** - an independent and objective assurance activity designed to add value to

and improve the Corporation's operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes;

12. Internal audit department - a department or unit of the Corporation and its consultants, if any, that provide independent and objective assurance services in order to add value to and improve the Corporation's operations; .

13. Internal Auditor - the highest position in the Corporation responsible for internal audit activities. If internal audit activities are performed by outside service providers, he is the person responsible for overseeing the service contract, the overall quality of these activities, and follow-up of engagement results.

Article 2: Rules of Interpretation

1. All references to the masculine gender in the salient provisions of this Manual shall likewise cover the feminine gender.
2. All doubts or questions that may arise in the interpretation or application of this Manual shall be resolved in favor of promoting transparency, accountability and fairness to the stockholders and investors of the Corporation.

Article 3: Board Governance

The Board of Directors (the "**Board**") is primarily responsible for the governance of the Corporation. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on Management. Compliance with the principles of good corporate governance shall start with the Board.

It shall be 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 shall exercise in the best interest of the Corporation, its shareholders and other stakeholders (Creditors, Industry, Customers, Community and Employees). The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

A) Composition of the Board

The Board shall be composed of at least eleven (11), but not more than fifteen (15), members who are elected by the stockholders.

The Board shall have two (2) independent directors.

Non-executive directors shall possess qualifications and stature that will enable them to participate in the deliberations of the Board. At least a majority of the members of the Board shall be holders of college degrees.

B) The Chairperson

The duties and responsibilities of the Chairperson in relation to the Board will include, among others, the following:

1. Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chairperson may deem necessary;
2. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and
3. Maintain qualitative and timely lines of communication and information between the Board and Management.

C) Qualifications of Directors

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board shall include practical understanding of the business of the Corporation;

D) Disqualification of Directors

1. Permanent Disqualification

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

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

The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities

Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

c) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

d) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;

e) Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;

f) Any person judicially declared as insolvent;

g) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (a) to (f) above;

h) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.

2. Temporary Disqualification

Any of the following shall be a ground for the temporary disqualification of a director:

a) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.

b) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.

c) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.

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

E) Responsibilities, Duties and Functions of the Board

1. General Responsibility

A director's office is one of trust and confidence. He shall act in a manner characterized by transparency, accountability and fairness.

It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders **and other stakeholders**.

2. Specific Duties and Functions

To ensure a high standard of best practice for the Corporation, **its stockholders and other stakeholders**, the Board **should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:**

- a) Implement a process for the selection of directors and appoint competent, professional, honest and highly motivated management officers.
- b) Provide sound strategic policies and guidelines to the Corporation on major capital expenditures.
- c) Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.
- d) Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Corporation. The CEO or CFO, upon direction from the Board, shall exercise oversight responsibility over this program.
- e) Identify the **Corporation's stakeholders in the community in which it** operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
- f) Adopt a system of check and balance within the Board with a regular review of the effectiveness of such system.
- g) Identify key risk areas and performance indicators and monitor these factors with due diligence.
- h) Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
- i) Constitute an Audit Committee and such other committees to assist the Board in the performance of its duties and responsibilities.
- j) Establish and maintain an alternative dispute resolution system in the Corporation

that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including the regulatory authorities.

k) Meet at such times or frequency as may be needed. The minutes of such meetings are recorded.

l) Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.

m) Appoint a Compliance Officer with the rank of at least vice-president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

F) Specific Duties and Responsibilities of a Director

A director's office is one of trust and confidence and should act in the best interest of the Corporation.

A director should observe the following norms of conduct:

1. Conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation.
2. Devote the time and attention necessary to properly and effectively perform his duties and responsibilities.
3. Act judiciously.
4. Exercise independent judgment.
5. Have a working knowledge of the statutory and regulatory requirements that affect the Corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies.
6. Observe confidentiality.

G) Board Meetings and Quorum Requirement

The members of the Board shall attend its regular and special meetings in person or through teleconferencing conducted in accordance with the rules and regulations of the Commission.

To monitor the directors' compliance with the attendance requirements, the Corporation shall submit to the Commission, on or before January 30 of the following year, a sworn certification about the director's record of attendance in Board meetings.

H) Remuneration of Directors and Officers

The Corporation's annual reports and information and proxy statements shall include a clear,

concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.

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

I) Board Committees

The Board shall constitute the proper committees to assist it in good corporate governance.

1. The Audit Committee

The Audit Committee shall consist of at least three (3) directors, one of whom shall be an independent director. The committee shall have the following functions:

- a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;
- b) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Corporation;
- c) Perform oversight functions over the Corporation's internal and external auditors and ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- d) Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation;
- e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit;
- f) Organize an internal audit department;
- g) Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security;
- h) Review the reports submitted by the internal and external auditors;
- i) Review the quarterly, half-year and annual-financial statements before their submission to the Board, with particular focus on the following matters:
 - i. Any change/s in accounting policies and practices
 - ii. Major judgmental areas
 - iii. Significant adjustments resulting from the audit
 - iv. Going concern assumptions
 - v. Compliance with accounting standards

vi. Compliance with tax, legal and regulatory requirements

j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;

k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Corporation's overall consultancy expenses. Any non-audit work that will conflict with the duties of an external auditor or may pose a threat to his independence shall be disallowed.

l) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee.

Should the company become a subsidiary of foreign corporation covered by the Revised Code of Corporate Governance, the internal auditor shall be independent of the Philippine operations and shall report to the regional corporate headquarters.

2. The Nomination Committee

The Board shall create a Nomination Committee which shall have at least three (3) voting (one of whom must be independent).

The Nomination Committee shall consider the following guidelines in the determination of the number of directorships for the Board:

- a) The nature of the business of the corporations which he is a director or an officer;
- b) Age of the director;
- c) Number of directorships/active memberships and officerships in other corporations or organizations; and
- d) Possible conflict of interest.

The optimum number shall be related to the capacity of a director to perform his duties diligently in general.

3. Compensation or Remuneration Committee

The Compensation or Remuneration Committee shall be composed of at least three (3) members, one (1) of whom shall be an independent director.

Duties and Responsibilities

a) Establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment.

b) Designate amount of remuneration, which shall be in a sufficient level to attract and retain directors and officers who are needed to run the company successfully.

- c) 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.
- d) Develop a form on Full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of duties once hired.
- e) Disallow any director to decide his or her own remuneration.
- f) Review (if any) of the existing Human Resources Development or Personnel Handbook, to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement directives and compliance of personnel concerned with all statutory requirements that must be periodically met in their respective posts.
- g) Or in the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

J) The Corporate Secretary

The Corporate Secretary, who should be a Filipino citizen and a resident of the Philippines, is an officer of the Corporation. He should:

1. Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Corporation;
2. Be loyal to the mission, vision and objectives of the Corporation;
3. Work fairly and objectively with the Board, Management and stockholders **and other stakeholders**;
4. Have appropriate administrative and interpersonal skills;
5. If he is not at the same time the Corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
6. Have a working knowledge of the operations of the Corporation;
7. Inform the members of the Board, in accordance with the bylaws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
8. Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
9. Ensure that all Board procedures, rules and regulations are strictly followed by the members; and

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

11. Issue certification every January 30th of the year on the attendance of directors in meetings of the board of directors, counter-signed by the Chairman of the Board.

K) The Compliance Officer

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

1. Monitor compliance by the Corporation with the Revised Code of Corporate Governance and the rules and regulations of regulatory 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 Commission when summoned in relation to compliance with the Revised Code of Corporate Governance; and
3. Issue a certification every January 30th of the year on the extent of the Corporation's compliance with this Manual for the completed year and, if there are any deviations, explain the reason for such deviation.
4. Identify and monitor compliance with the rules and regulations of regulatory agencies, and take appropriate corrective measures to address all regulatory issues and concerns.

Article 4: Adequate and Timely Information

The Management shall provide members of the Board of Directors with complete, adequate and timely information about the matters to be taken in the meeting. Further inquiries may be made by members of the Board to enable them to properly inform their duties and responsibilities. Members are given independent access to Management and Corporate Secretary. Furthermore, members, either individually or as a Board, are given access to independent professional advice at the Corporation's expense.

Article 5: Accountability and Audit

A. The Board shall provide the stockholders with a balanced and comprehensible assessment of the Corporation's performance, position and prospects, including interim and other reports that could adversely affect its business, as well as reports to regulators that are required by law.

B. The Management shall provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management shall formulate, under the supervision of the Audit Committee, the rules and

procedures on financial reporting and internal control in accordance with the following guidelines:

1. The extent of its responsibility in the preparation of the financial statements of the Corporation;
2. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Corporation **for the benefit of all stockholders and other stakeholders**;
3. On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
4. The Corporation shall consistently comply with the financial reporting requirements of the Commission;
5. The external auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Corporation, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee.

The annual report should include 'significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the Commission who shall undertake an independent audit of the Corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the Corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the Corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the Corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the Corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information

statement or any report filed with the Commission or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

Article 6: Stockholders' Rights and Protection of Minority Stockholders' Interests

A) The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely:

1. Right to vote on all matters that requires their consent or approval;
2. Pre-emptive right to all stock issuances of the Corporation;
3. Right to inspect corporate books and records;
4. Right to information;
5. Right to dividends; and
6. Appraisal right.

B) The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation.

C) The Board shall promote the rights of stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

D) The Board shall take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information shall be made available to stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

E) The Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.

Article 7: Governance Self-Rating System

The Board shall create an internal self-rating system that can measure the performance of the Board and Management in accordance with the criteria provided for in this Manual.

Article 8: Disclosure and Transparency

The essence of corporate governance is transparency. All material information about the Corporation which could adversely affect its viability or the interests of the stockholders **and other stakeholders** should be publicly and timely disclosed through the appropriate Exchange mechanisms and submissions to the Commission. **Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet**

transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management.

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

Article 9: Commitment to Good Corporate Governance

The Corporation commits to implement its corporate governance rules in accordance with the Revised Code of Corporate Governance and this Manual. This Manual is made available for inspection by any stockholder at reasonable hours on business days.