



# **ABS-CBN CORPORATION**

**MANUAL OF CORPORATE GOVERNANCE**

(Revised December 2014)

*The Board of Directors of ABS-CBN Broadcasting Corporation adopts this Manual of Corporate Governance to institutionalize corporate governance principles.*

*The Board, management, employees and shareholders believe that good corporate governance is a necessary component of what constitutes sound strategic business management and would improve the economic and commercial prosperity of the Corporation and ultimately, the shareholders.*

### Section 1. **Definition of Terms**

Corporate Governance is defined as the framework of rules, systems and processes in the corporation that governs the performance of 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.

### Section 2. **Compliance Officer**

The Board may appoint a Compliance Officer for Corporate Governance who shall directly report to the Chairman of the Board. This Compliance Officer shall have the following duties and responsibilities:

- Establish an evaluation system to determine and measure compliance with this Manual. Monitor compliance with the provisions and requirements of this Manual;
- Submit a report to the Securities and Exchange Commission every January 30<sup>th</sup> of the year on the extent of the Corporation's compliance with this Manual for the completed year.
- Identify, monitor and control compliance with corporate governance matters.
- Recommend to the Board the review of the provisions of this Manual.
- Determine violations of this Manual and recommend to the Chairman of the Board the appropriate actions for such violations, for further review and approval of Board.

### Section 3. **Duties and Responsibilities of the Board**

#### General Duties and Responsibilities of the Board

The Board represents the shareholders' interest in perpetuating a successful business, including optimizing long-term financial returns. The Board shall be responsible for determining that the Corporation is managed in such a way to ensure such result and the best interest of its stockholders and other stakeholders.

#### Duties and Responsibilities of a Director

A director has the duty to be diligent and loyal to the Corporation.

A director must exercise that degree of skill, diligence and care that a reasonably prudent person would exercise in similar circumstances. It shall be sufficient for a director to act on an informed basis in good faith and in honest belief that the action was taken in the best interest of the Corporation.

A director is a fiduciary of the Corporation and shall not take advantage of the Corporation by means of fraudulent or unfair transactions. He must act honestly and in good faith in the interest of the Corporation. He must avoid actual and potential conflicts of interest and shall disclose fully and fairly his interests in contracts with the Corporation.

The directors must act only within corporate powers.

#### Specific Duties and Responsibilities of the Board to Implement Corporate Governance Principles

To ensure a high standard of best practice for the corporation, its stockholders and relevant stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities to implement corporate governance principles:

- The Board shall determine the Corporation's purpose and values, its vision and mission, determine the strategies to achieve this purpose and to implement its values in order to ensure that the Corporation survives and thrives.
- The Board shall ensure that adequate procedures, systems and practices that protect the Corporation's assets and reputation are in place and are maintained. The Board shall be guided by best business practices.
- The Board shall monitor the effectiveness of management policies and decisions.
- The Board shall have a process for the selection of directors and officers.
- The Board shall 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.
- Perform such other functions which may be required under existing laws, issuances and regulations.

#### **Section 4. Nominations and Qualifications of the Board**

The Board should ensure that, through a managed and effective system, board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring prudent judgment to bear on the decision making process.

The following disqualifications of a director may be considered in the selection process:

- Final judicial conviction of an offense involving moral turpitude or fraudulent act or transgressions;
- Finding by final and executory judgment by the Securities and Exchange Commission or a court or other administrative body of competent jurisdiction of a wilful serious violation, or willful aiding, abetting, counseling, inducing, or procuring of the serious violation of, any material provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation of order of the Commission or Bangko Sentral ng Pilipinas;
- Judicial declaration of insolvency;
- Finding by final and executory judgment by foreign court or equivalent financial regulatory authority with competent jurisdiction of material acts, serious violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
- Conviction by final and executory judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.
- Having competing or antagonistic businesses with the Corporation.

#### Qualifications of Director

A director shall have the following qualifications at the time he is duly elected and qualified and throughout his term of office:

- Holder of at least one (1) share of stock of the Corporation;
- Personal integrity, capacity to read and understand financial statements, absence of conflicts of interest with the Corporation (subject to the discretion of the Board), time availability and motivation.

#### Qualifications of an Independent Director

- An independent director shall mean a person other than an officer or employee of the Corporation, its parent or subsidiaries, or any other individual having a relationship with the Corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a Director.
- If the independent director becomes an officer or employee of the same corporation he shall be automatically disqualified from being an independent director.

## Disqualification and Grounds for Dismissal of Directors

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

- Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;
- Absence or non-participation for unjustifiable reason/s for 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;
- Dismissal or termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;
- Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

The Board may create a Nomination Committee who shall consider the above qualifications and disqualification of a nominee to the Board in its recommendation of such nominee for election or re-election.

The Board shall have the final decision to determine the qualification or disqualifications of a Director.

### Section 5. **Remuneration of Officers**

The Board shall promote a culture that supports enterprise and innovation, with appropriate short-term and long-term performance related rewards that are fair and achievable in motivating management and employees effectively and productively. It is imperative that the Board seeks to drive the business enterprise proficiently through the proper and considered decision-making process and recognizes entrepreneurial endeavor among its management without contravening laws and regulations.

In matters of compensation and remuneration, the Board shall set a policy that creates a reward system to recruit, retain and motivate high quality executives and employees. Towards this end, the board may create a Compensation or Remuneration Committee and delegate such powers and duties to such committee as it may deem proper.

## Section 6. **Audit Committee**

The Board shall create an Audit Committee composed of three (3) members of the Board, at least one (1) of whom shall be an Independent Director. The Chairman of the Audit Committee shall be an Independent Director.

Each member of the Audit Committee shall have adequate understanding at least or competence at most of the Corporation's financial management systems and environment.

### Duties and Responsibilities

The Audit Committee shall have the following duties and responsibilities:

- Check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Develop 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 relevant stakeholders.
- Perform oversight financial management functions specially in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
- Pre-approve all audit plans, scope and frequency in connection with the conduct of external audit.
- Interface with internal auditors and external auditors.
- Evaluate to international standards the accounting and auditing processes, practices and methodologies, and develop the following in relation to this reform:
  - i. A definite timetable within which the accounting system of the Corporation will be International Accounting Standards (IAS) complaint.
  - ii. An accountability statement that will identify officers and/or personnel responsible for the accomplishment of such task.
- Develop a transparent financial management system that aims to ensure the integrity of internal control activities throughout the Corporation.

Regularly review organizational and procedural controls guided by best practices.

## Section 7. **Nomination and Election Committee**

The Board shall create a Nomination and Election Committee to be composed of at least three (3) members, one of whom is an independent director. The Committee shall ensure that, through a managed and effective system consistent with the by-laws, board elections are made that provide a mix of proficient directors, each of whom is able to add value and to bring prudent judgment to bear on the decision making process.

### Duties and Responsibilities

The Nomination and Election Committee shall have the function of reviewing and evaluating the qualification of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors.

## Section 8. **Risk Management Committee**

The Board shall create a Risk Management Committee composed of at least (3) members of the Board, or such other number as may be prescribed by the Board. The Chairman of the Board shall designate the Chairman of the Committee.

### Duties and Responsibilities

The Risk Management Committee shall have the following powers and functions:

- i. Oversee the formulation and establishment of an enterprise-wide risk management system;
- ii. Review, analyze and recommend the policy, framework, strategy, method and/or system used by the Corporation to manage risks, threat or liabilities;
- iii. Review and assess the likelihood and magnitude of the impact of material events on the Corporation and/or to recommend measures, responses or solutions to avoid or reduce risks or exposures; and
- iv. Perform such other duties and functions and/or assume such responsibilities as may be delegated by the Board of Directors.

## Section 9. **Corporate Secretary**

The Corporate Secretary and the Assistant Corporate Secretary shall be Filipino citizens.

### Duties and responsibilities

The Corporate Secretary and the Assistant Corporate Secretary shall have the following duties and responsibilities:

- Assist the Board in the preparation of the agenda of meetings and the management in the preparation and gathering of materials to be presented to the Board or the shareholders.
- Implement such methods adopted by the Board to efficiently and timely inform and brief the Board members prior to board meeting.
- Attend Board meeting and take down the minutes of special and regular meetings of the Board and shareholders.
- Work fairly and objectively with the Board, Management, stockholders and relevant stakeholders.

#### Section 10. **External Auditor**

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Corporation. An external auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.

The reasons for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Corporation's annual current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The external auditor shall not at the same time provide the services of an internal auditor. The Audit Committee shall ensure that other non-audit work of the external auditor shall not be in conflict with the functions of the external auditor.

If an external auditor believes that the statements made in the Corporation's annual report, information statement or proxy statement filed during his engagement is incorrect or incomplete, he shall present his views in said reports.

The handling partner of the Corporation's external auditor shall be changed every five (5) years or earlier, as determined by the Board.

#### Section 11. **Internal Auditor**

The Corporation shall have in place an independent audit system which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and shareholders shall be provided with reasonable assurance that key organizational and procedural controls are effective, appropriate and complied with. The internal audit system to be adopted shall take into account the nature

and complexity of the Corporation's business and the business culture, the volume, size and complexity of the transactions, the degree of risks, the degree of centralization and delegation of authority, the extent and effectiveness of information technology and the extent of regulatory compliance.

The internal control system for management's operational responsibility shall center on the Chief Executive Officer.

The Internal Auditor shall report to the Audit Committee

#### Section 12. **Communication Process**

This Manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days. Copies of this Manual shall also be made available to officers and employees.

Individual Board members may, from time to time, at the request of management, meet or otherwise communicate with various constituencies that are involved with the Corporation. If comments from the Board are appropriate, they should, in most circumstances come from the Chairman of the Board or the Director designated as spokesperson for the Corporation.

#### Section 13. **Orientation Process**

New directors should be familiarized with the Corporation's operations, senior management and its business environment and be inducted in terms of their fiduciary duties and responsibilities as well as in respect of the Board's expectations. If new directors have no board experience, they should receive orientation in their unaccustomed responsibility. Opportunities for orientation for existing and potential directors shall be identified and appropriate development undertaken.

#### Section 14. **Reportorial or Disclosure System of Corporate Governance Policies**

The reports or disclosures required under this Manual shall be prepared and submitted to the Securities and Exchange Commission by the responsible officer.

#### Section 15. **Investor's Right and Protection**

The shareholders, as a whole, have the right to receive timely and transparent information about the Corporation as may be required by law or rules of the Philippine Stock Exchange.

The Board recognizes and shall respect the rights of the stockholders under the law, the articles of incorporation and the by-laws, specifically the stockholders' right to vote, pre-emptive rights, power or inspection, right to dividend and appraisal rights.

## Section 16. **Disclosure and Transparency**

It is essential that all material information about the corporation which could adversely affect its viability or the interest of its stockholders and relevant stakeholders should be publicly and timely disclosed. 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 relevant stakeholders.

## Section 17. **Provisions on Stakeholders**

The Corporation shall fulfill its obligations to its internal and external stakeholders by promoting a culture of good governance consistent with its corporate values of excellence, teamwork, honesty, integrity, respect, meritocracy and service orientation.

### Customers

The Corporation shall deliver high quality and relevant programs and services to inform and to entertain the public through creative content for any distribution platform. The Corporation will innovate, diversify and expand into enterprises where its expertise in content creation will open new business and service opportunities. The Corporation shall abide by rules and practices at ensuring these objectives.

### Suppliers/Contractors

The Corporation shall adopt such procurement policies and procedures in order to foster mutually beneficial relationship with its suppliers/vendors.

### Environment

The Corporation shall initiate and implement activities to ensure an actively protected, adequately rehabilitated, and sustainably managed environment. Working towards a more sustainable world through environmental responsibility, the Corporation shall develop policies and implement practices to minimize pollution and waste, support the use of environment-friendly products and comply with regulatory requirements.

### Community Interaction

The Corporation shall be a good corporate citizen in the areas where it operates. It shall work with various sectors and stakeholders in an ethical, sustainable, responsible and mutually-beneficial manner aimed at uplifting the lives of the community residents.

## Creditors

The Corporation shall respect the rights and interests of its creditors and will comply with all its obligations as specified in the terms and conditions of existing loan agreements. It shall foster relationships with its creditors based on mutual trust, transparency and professionalism.

## Employees

The Corporation recognizes its human resources as its most valuable asset. It shall protect the welfare of its employees by providing them with a safe, pleasant and healthy working environment in order for them to optimize their potential. It shall keep open lines of communication and provide opportunities for career and personal development.

The Corporation shall foster and promote an environment of professionalism based on competence, meritocracy, self-discipline and responsible behavior. In establishing such an environment the Corporation shall establish clear policies and standards of acceptable behavior in performing one's job and in dealing with co-employees and the public that are consistent with corporate values. A rewards and recognition system designed to reinforce value contribution and desired behavior, coupled with competitive compensation and benefits, shall be instituted.

The Corporation shall develop and implement policies and procedures for handling employee complaints concerning illegal and unethical behavior and shall protect employees who report these irregularities from retaliation.

### Section 18. **Monitoring and Assessment**

The Committees shall report to the Board in such manner as the Board may require.

This Manual shall be subject to annual review or at such frequency as may be determined by the Board.

### Section 19. **Penalties for Non-Compliance with the Manual**

To strictly observe and implement the provisions of this Manual, the Board may take appropriate actions, after notice and hearing, on the individual directors, officers and employees, such as censure, suspension or removal from office depending on the gravity of the offense as well as the frequency of the violation.

The commission of a serious violation of a material provision of this Manual by any member of the Board of the Corporation shall be sufficient cause for removal from directorship.

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