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## KEPPEL PHILIPPINES MARINE, INC.

## MANUAL ON CORPORATE GOVERNANCE

2020



## KEPPEL PHILIPPINES MARINE, INC.

### THE NEW MANUAL ON CORPORATE GOVERNANCE (Approved on 30 September 2020)

The Board of Directors and Management, i.e. officers and staff, of **KEPPEL PHILIPPINES MARINE, INC. and its Subsidiaries and Associates** (“KPMI”, or “Company” or “Corporation”) hereby commit themselves to adhere to the principles and best practices contained in this Manual, acknowledge that the same is necessary in the attainment of its corporate goals and will strongly observe and promote compliance thereto to ensure that KPMI operates with utmost integrity while working to the very highest standards of business conduct.

**KPMI’s objective** is to protect and enhance the interest of its stakeholders by committing itself to the principles of risk management, fairness, accountability and transparency. Thus, it fully embraces and practices sound corporate governance in order to instill trust and confidence to the organization.

The Board of Directors, Management, employees, and shareholders believe that corporate governance is an indispensable component towards achieving long-term success and profitability in KPMI. Furthermore, sound strategic business management must be implemented and observed while creating full awareness within the organization.

This Manual will institutionalize the principles of good corporate governance in the entire organization. As KPMI progresses in the years ahead, this Manual will be kept under constant review and revision to meet the emerging standards of good corporate governance practices.

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## CORPORATE GOVERNANCE PRINCIPLES



The Board will adopt the following corporate governance principles embodied in the Code of Corporate Governance for Public Companies pursuant to SEC Memorandum Circular No. 24 dated 19 December 2019, except as otherwise stated.

### THE BOARD'S GOVERNANCE RESPONSIBILITIES

<b>Principle 1</b>	The Company should be headed by a competent, working board 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 long-term best interests of its shareholders and other stakeholders.
<b>Principle 2</b>	The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the Company's articles of incorporation and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to shareholders and other stakeholders.
<b>Principle 3</b>	Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, compliance and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in their Committee Charter.
<b>Principle 4</b>	To show full commitment to the Company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.
<b>Principle 5</b>	The Board should endeavor to exercise objective and independent judgment on all corporate affairs.
<b>Principle 6</b>	The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and

	competencies.
<b>Principle 7</b>	Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

## DISCLOSURE AND TRANSPARENCY

<b>Principle 8</b>	The Board should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.
<b>Principle 9</b>	The Company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.
<b>Principle 10</b>	The Board should ensure that the Company discloses material and reportable non-financial and sustainability issues.
<b>Principle 11</b>	The Company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.

## INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK

<b>Principle 12</b>	To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Company should have a strong and effective internal control system and enterprise risk management framework.
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## CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS

<b>Principle 13</b>	The Company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.
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## DUTIES TO STAKEHOLDERS

<b>Principle 14</b>	The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.
<b>Principle 15</b>	A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and participate in its corporate governance processes.
<b>Principle 16</b>	The Company should be socially responsible in all its dealings with the communities in which it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

## ARTICLE 1: DEFINITION OF TERMS

- 1.1 **Board of Directors (Board/BOD)** – the governing body elected by the stockholders that exercises the corporate powers of a corporation, conducts all its business and controls its properties.
- 1.2 **Corporate Governance** is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.  
  
Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.
- 1.3 **Enterprise Risk Management (ERM)** – a process, effected by an entity's Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be

within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

- 1.4 **Executive Director (ED)** – a director who has executive responsibility of day-to-day operations of a part or the whole of the corporation.
- 1.5 **Independent Director (ID)** – a person who is independent of Management and the controlling shareholder, and is 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.
- 1.6 **Internal control** – a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization’s policies and procedures.
- 1.7 **Management** – a group of executives 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.
- 1.8 **Non-executive director (NED)** – a director who has no executive responsibility and does not perform any work related to the day-to-day operations of the corporation.
- 1.9 **Public Company** – a company with assets of at least Fifty Million Pesos (Php50,000,000.00) and having two hundred (200) or more shareholders holding at least one hundred (100) shares each of equity securities.
- 1.10 **Related Party** – covers the company’s directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, and other persons if these persons have control, joint control or significant influence over the covered entity.



It also covers the covered entity's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

- 1.11 **Related Party Transactions (RPT)** – a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- 1.12 **Significant Influence** – The power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.
- 1.13 **Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the company's strategies, policies, business decisions and operations, in general. This includes, among others, non-proprietary certificate holders, customers, creditors, employees, suppliers, investors, as well as the government and the community in which the company operates.

## ARTICLE 2: RULES OF INTERPRETATION

- 2.1 All references to the masculine gender in the salient provisions of this Manual shall likewise cover the feminine gender.
- 2.2 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, investors and stakeholders of KPMI.

## ARTICLE 3: THE BOARD'S GOVERNANCE RESPONSIBILITIES

### 3.1 ESTABLISHING A COMPETENT BOARD

*The Company should be headed by a competent, working board 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 long-term best interests of its shareholders and other stakeholders.*

#### 3.1.1 Composition of the Board

The Board will be composed of seven (7) directors with a collective working knowledge, experience or expertise that is relevant to KPMI's industry/sector. The Board will always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

The Board will be elected at the Annual Stockholders' Meeting, to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Any vacancy occurring in the Board of Directors other than by removal or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancies must be filled by stockholders in a regular or special meeting called for that purpose.

#### 3.1.2 Chairman of the Board

The positions of Chairman of the Board and the President will be held by separate individuals and each will have clearly defined responsibilities. This will foster an appropriate balance of power, increased accountability and better capacity for independent decision-making.

The roles and responsibilities of the Chairman include, among others, the following:

- i. Make certain that the meetings of the Board are held in accordance with By-laws or as the Chairman may deem necessary.
- ii. Ensure that the meeting agenda focuses on strategic matters, including the overall risk appetite of KPML, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
- iii. Ensure that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- iv. Facilitate discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
- v. Ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- vi. Assure the conduct of proper orientation for first-time directors and continuing training opportunities for all directors; and
- vi. Make sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

### 3.1.3 Members of the Board

The Board will be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

The members of the Board will be composed of a combination of executive directors and non-executive directors, including the independent directors, in order that no director or small group of directors can dominate the decision-making process.

KPMI will have at least two (2) independent directors.

#### 3.1.4 Training

KPMI will provide training to its directors, including an orientation program for first-time directors and relevant annual continuing training for all directors. The orientation or training programs will cover SEC mandated topics on corporate governance and the like conducted by a duly SEC accredited private or government institute.

#### 3.1.5 Board Diversity

KPMI recognizes the significance of a diverse Board in order to avoid groupthink and ensure that optimal-decision making is achieved. KPMI shall strive to have a Board diverse in age, ethnicity, culture, skills, competence, knowledge and gender.

#### 3.1.6 Corporate Secretary

The Board will be assisted in its duties by a Corporate Secretary, who will be a separate individual from the Compliance Officer. The Corporate Secretary should not be a member of the Board of Directors and should annually attend a training on corporate governance.

The Corporate Secretary is an officer of KPMI, Filipino citizen and a resident of the Philippines. He will primarily be responsible to KPMI and its shareholders, and not to its Chairman or President and has, among others, the following duties and responsibilities:

- a. Assist the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the Chairman of the Board and its committees to set agendas for those meetings;
- b. Safe keep and preserve the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of KPMI;

- c. Keep abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of KPMI, and advise the Board and the Chairman on all relevant issues as they arise;
- d. Work fairly and objectively with the Board, Management and stockholders and contribute to the flow of information between the Board and Management, the Board and its committees, and the Board and its shareholders and other stakeholders;
- e. Advise on the establishment of Board committees and their terms of reference;
- f. Inform members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five (5) working days in advance, 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;
- g. Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Perform required administrative functions;
- i. Oversee the drafting of the by-laws and ensures that they conform with regulatory requirements; and
- j. Perform such other duties and responsibilities as are incident to his office, or as may be assigned to him by the Board or the President, or as may be provided by the SEC.

As stated in SEC Memorandum Circular No. 24, Series of 2019, it is recommended that the Corporate Secretary should not be a member of the Board of Directors. However, due to KPMI's simple structure and operation, its Corporate Secretary who is not its direct employee, may also be a member of the Board of Directors. Being a member of

the Board, he will not prejudice the secretariat functions since he will adhere to the rules and regulations of the SEC and other governing bodies.

### 3.1.7. Compliance Officer

The Board will ensure that it is assisted in its duties by a Compliance Officer, who will have a rank of Vice President or an equivalent position with adequate stature and authority in KPMI. The Compliance Officer may be a member of the Board of Directors and will annually attend training on corporate governance.

He is a member of KPMI's Management team in charge of the compliance function. Similar to the Corporate Secretary, he is primarily liable to KPMI and its shareholders, and not to the Chairman or President of KPMI. He has, among others, the following duties and responsibilities:

- a. Ensure proper onboarding of new directors (i.e., orientation on KPMI's business, charter, Articles of Incorporation and By-laws, among others);
- b. Monitor, review, evaluate and ensure the compliance of KPMI, its officers and directors with the relevant laws, this Code, rules and regulations and all governance issuances of regulatory agencies;
- c. Report the matter to the Board if violations are found and recommend the imposition of appropriate disciplinary action;
- d. Ensure the integrity and accuracy of all documentary submissions to regulators;
- e. Appear before the SEC when summoned in relation to compliance with this Code and other relevant rules and regulations;
- f. Collaborate with other departments to properly address compliance issues, which may be subject to investigation;

- g. Identify possible areas of compliance issues and work towards the resolution of the same;
- h. Ensure the attendance of board members and key officers to relevant trainings; and
- i. Perform such other duties and responsibilities as may be provided by the Board and the SEC.

As stated in SEC Memorandum Circular No. 24, Series of 2019, it is recommended that the Compliance Officer should not be a member of the Board of Directors. However, due to simple structure and operation of KPMI, its Compliance Officer may also be a member of the Board of Directors. Being a member of the Board, he will not prejudice the compliance functions since he will adhere to the rules and regulations of the SEC and other governing bodies.

### **3.2 ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

*The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the Company's articles of incorporation and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to shareholders and other stakeholders.*

- 3.2.1 The Board members will act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of KPMI and all shareholders.
- 3.2.2 The Board will oversee the development of and approve KPMI's business objectives and strategy, and monitor their implementation, in order to sustain KPMI's long-term viability and strength.

In discharging its duty to monitor and oversee management action and to ensure a high standard of best practice for KPMI, its stockholders and other stakeholders, the Board will conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- a. Implement a process for the selection to ensure a mix of competent directors and officers who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for directors, key officers and Management to ensure growth and a continued increase in the shareholders' value.
- b. Provide sound strategic policies and guidelines to KPMI on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance;
- c. Ensure KPMI's faithful compliance with all applicable laws, regulations and best business practices;
- d. Establish and maintain an effective investor relations program that will keep the stockholders informed of important developments in KPMI. If feasible, the President or the Treasurer will exercise oversight responsibility over this program;
- e. Identify KPMI's stakeholders in the community in which it operates or are directly affected by its operations, and formulate clear policy of accurate, timely and effective communication with them;
- f. Adopt a system of check and balances within the Board. A regular review of the effectiveness of such system will be conducted to ensure the integrity of the decision-making and reporting processes at all times. There will be a continuing review of KPMI's internal control system in order to maintain its adequacy and effectiveness.
- g. Formulate and implement policies and procedures that will ensure the integrity and transparency of related party transactions (RPTs) between and among KPMI 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.

- h. Endeavor to provide appropriate technology and utilize available resources to ensure a competitive position;
- i. Constitute an executive, audit and risk management, corporate governance and nomination, and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities and which will aid to the attainment of corporate goals;
- j. Establish and maintain an alternative dispute resolution system in KPMI that can amicably settle conflicts or differences between KPMI and its stockholders, and KPMI and third parties, including the regulatory authorities;
- k. Properly discharge Board functions by meeting regularly or frequently as may be needed, and the minutes of such meetings will be duly recorded. Independent views during Board meetings will be encouraged and given due consideration;
- 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;

3.2.3 The Board will be headed by a competent and qualified Chairperson.  
*(Please refer to Article 3.5.4.a for the roles and responsibilities of the Chairman.)*

3.2.4 The Board will be responsible for ensuring and adopting an effective succession planning program for directors, key officers and Management to ensure growth and a continued increase in the shareholders' value. This will include adopting a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in KPMI.

- 3.2.5 The Board will align the remuneration of key officers and Board members with the long-term interests of KPMI. In doing so, it will formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director will participate in discussions or deliberations involving his own remuneration or per diem.

The directors' compensation will always be in accordance with the By-laws of KPMI and/or as approved by the stockholders during the annual stockholders' meeting. The Board will, from time to time, approve reasonable per diem that a director may receive for attendance in the Board and Board Committee meetings.

- 3.2.6 The Board, through its Corporate Governance Committee, will have a formal and transparent board nomination and election policy that will include how it accepts nominations from minority shareholders and reviews nominated candidates. The policy will also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors will be aligned with the strategic direction of KPMI. *(Please refer to Article 3.3.1.c Corporate Governance Committee – Nomination Functions.)*
- 3.2.7 The Board will be primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO) or the President, and control functions led by their respective heads. *(Please refer to Article 3.6 Assessing Board Assessment.)*
- 3.2.8 The Board will have the overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy will include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions. The policy will encompass all entities within the group, taking into account their size, structure, risk profile and complexity of

operations. *(Please refer to Article 3.3.1 b Audit Committee – Related Party Transactions Functions.)*

- 3.2.9 The Board will establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer or the President, and personnel's performance is at par with the standards set by the Board and Senior Management.
- 3.2.10 The Board will oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential/actual conflicts of interest of Management, board members, and shareholders. The Board shall adopt an Internal Audit Charter.
- 3.2.11 The Board will oversee that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess and manage key business risks. The risk management framework will guide the Board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies. This function will be undertaken by the Audit and Risk Management Committee.
- 3.2.12 The Board will have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter will serve as a guide to the directors in the performance of their functions and will be publicly available.

### **3.3 ESTABLISHING BOARD COMMITTEES**

*Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and compensation.*

- 3.3.1 The Board will establish board committees that focus on specific board functions to aid in the optimal performance of its roles and

responsibilities. The Board Committees shall be composed only of board members.

The Board will constitute the following Committees:

- Executive Committee
- Audit Committee
  - Audit
  - Enterprise Risk Management
  - Related Party Transactions
- Corporate Governance Committee
  - Corporate Governance
  - Nomination
  - Compensation

#### A. Executive Committee

The Board will create an Executive Committee which will have at least three (3) members, consisting of the President, other officers and/or directors of KPML.

The Committee will perform tasks delegated to it from time to time by the Board of Directors, subject to applicable laws and except on the following matters:

- i. Approval of any action for which shareholders' approval is also required;
- ii. Filling of vacancies in the board;
- iii. Amendment or repeal of by-laws or the adoption of new by-laws;
- iv. Amendment or repeal of any resolution of the board which by its express terms are not so amenable or repealable; and
- v. Distribution of cash dividends to the shareholders.

#### B. Audit Committee

The Audit Committee (AC) will be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, will be independent. All of the

members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. The Chairman of the AC will not be the Chairman of the Board or of any other committees.

The AC has the following functions:

- Audit
- Enterprise Risk Management
- Related Party Transaction

In view of the nature of operations and risk profile of the Company, the same being focused mainly on shipbuilding and ship repair, the Board of Directors has decided not to create a separate Board Risk Oversight Committee (BROC) as recommended under SEC Memorandum Circular No. 24-2019.

The Board deems that the functions of a BROC may already be carried out by the AC with functions focused on audit, enterprise risk management and related party transactions, thus allowing for concentration of focus in specific issues and lead to a better management of the Board's workload.

#### Audit Functions:

The AC will enhance its oversight capability over KPMI's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It will be responsible for overseeing the Senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit functions are as follows:

- i. Recommend the approval of the Internal Audit (IA) Charter, which formally defines the role of Internal Audit Department, the audit plan of the IA Department, as well as oversees the implementation of the IA Charter;
- ii. Even if KPMI has no Internal Audit Department, the Internal Audit functions will be outsourced. It will monitor and evaluate the adequacy and effectiveness of KPMI's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances will be in place in order to (a) safeguard KPMI's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of KPMI's financial data, and (d) ensure compliance with applicable laws and regulations;
- iii. Oversee the outsourcing of internal audit services. It will recommend the appointment and/or grounds for approval of the terms and conditions for outsourcing internal audit services;
- iv. Establish and identify the reporting line of the Internal Auditor (Outsourced) to enable him to properly fulfill his duties and responsibilities. For this purpose, he will directly report to the Committee;
- v. Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations;
- vi. Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of the audit, and ensure the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- vii. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees

paid to the External Auditor in relation to the total fees paid to him and to KPMI's overall consultancy expenses. The Committee will disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed, will be disclosed in KPMI's Annual Report and Annual Corporate Governance Report;

viii. Review and approve the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:

- Any change/s in accounting policies and practices
- Areas where a significant amount of judgment has been exercised
- Significant adjustments resulting from the audit
- Going concern assumptions
- Compliance with accounting standards
- Compliance with tax, legal and regulatory requirements

ix. Review the disposition of the recommendations in the External Auditor's management letter;

x. Perform oversight functions over KPMI's Internal and External Auditors; ensure the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

xi. Coordinate, monitor and facilitate compliance with laws, rules and regulations;

xii. Recommend to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of KPMI, and provide an objective assurance on the manner by which the financial statements will be prepared and presented to the stockholders; and

- xiii. Meet with the Board at least every quarter without the presence of the President or other management team members, and periodically meet with the head of the internal audit. The Committee may invite the President or other management team if deemed necessary to answer queries raised by the Committee.

#### Enterprise Risk Management (ERM) Functions:

Enterprise Risk Management (ERM) is integral to an effective corporate governance process and the achievement of a company's value creation objectives. The AC will ensure the functionality and effectiveness of enterprise risk management frameworks.

The ERM functions are as follows:

- i. Develop a formal ERM plan which contains the following elements: (a) common language or register or risk, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risk and developing strategies to manage prioritized risk, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- ii. Oversee the implementation of the ERM plan. The Committee conducts regular discussions on KPMI's prioritized and residual exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risks;
- iii. Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;



- iv. Advise the Board on its risk appetite levels and risk tolerance levels;
- v. Review annually KPMI's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on KPMI;
- vi. Assess the probability of each identified risk becoming reality and estimates its possible significant impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of KPMI and its stakeholders;
- vii. Provide oversight over Management's activities in managing credit, market liquidity, operational, legal and other risk exposures of KPMI. This function includes regularly receiving information on risk exposures and risk management activities from Management, and
- viii. Report to the Board on a regular basis, or as deemed necessary, KPMI's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.
- ix. Provide an internal control and risk management framework as provided under Article 5 hereof.

Related Party Transactions (RPT) Functions:

As one of the functions of the AC, the Committee is tasked in general to review all material related party transactions of KPMI to ensure that it is an arms-length, market-based and in compliance with all applicable laws.

The RPT functions are as follows:

- i. Evaluate on an ongoing-basis the existing relations between and among businesses and counterparties to ensure that all related parties are continually identified, RPT's are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships will be reflected in the relevant reports to the Board and regulators/supervisors;
- ii. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interests rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of KPMI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs, the Committee takes into account, among others, the following:
  - The related party's relationship to KPMI and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to KPMI of the proposed RPT;
  - The availability of other sources or comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. KPMI will have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs.
- iii. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to KPMI's RPT exposures, and policies on conflicts of interest

or potential conflicts of interest. The disclosure will also include information on the approach to managing material conflicts of interest that are inconsistent with such policies and conflicts that could arise as a result of KPMI's affiliation or transactions with other related parties;

- iv. Report to the Board of Directors on a regular basis, status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- v. Ensure that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process; and
- vi. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPT's, including periodic review of RPT policies and procedures.

#### C. Corporate Governance Committee

It will be composed of at least three (3) directors, majority of whom will be independent directors, including the Chairman.

The Corporate Governance Committee (CGC) has the following functions:

- corporate governance
- nomination
- compensation

#### Corporate Governance Functions:

The Committee is tasked to assist the Board in ensuring compliance with and proper observance of corporate governance principles and practices.

The Corporate Governance functions are as follows:

- i. Oversee the implementation of the corporate governance framework and periodically reviews the said framework to

ensure that it remains appropriate in light of material changes to KPMI's size, complexity and business strategy, as well as its business and regulatory environments;

- ii. Oversee the periodic performance evaluation of the Board and its committees as well as executive management, and conduct an annual self-evaluation of its performance;
- iii. Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- iv. Recommend continuing education/training programs for directors, assignment of tasks/projects to board committees, succession plan for the board members and senior officers, and remuneration packages for corporate and individual performance;
- v. Adopt corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- vi. Propose and plan relevant trainings for the members of the Board; and
- vii. Oversee the evaluation process to determine the performance of the Board, the individual directors, and committees.

#### Nomination Functions:

Determine the nomination and election process for KPMI's directors and has the special duty of defining the general profile of board members that KPMI may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board.

The Nomination functions are as follows:

- i. Pre-screen and shortlist all candidates to the Board and other appointments that require Board approval, in accordance with the qualifications and disqualifications enumerated provided under this Manual, the Corporation Code, Securities Regulations Code, and other pertinent rules and regulations;
- ii. Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;
- iii. In consultation with the Executive Committee, re-define the role, duties and responsibilities of the President by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times;
- iv. Ensure compliance and proper observance by the directors of the corporate governance principles and practices;
- v. Oversee the periodic performance evaluation of the Board and its Committees as well as executive management and conduct an annual self-evaluation of its performance;
- vi. Ensure that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement; and
- viii. Ensure the nomination and election process are complied with.

The nomination and election process includes the review and evaluation of the qualifications of all persons nominated to the Board, in relation to criteria set forth in KPMI's Manual on Corporate Governance, By-laws, and applicable regulations, including whether the candidate:

- Possesses the knowledge, skills, experience;
- Has independence of mind, especially to the non-executive director (NED), given their responsibilities to the Board;
- Has a record of integrity and good repute;

- Has sufficient time to carry out the responsibilities; and
- Has the ability to promote smooth interaction between board members.

The Corporate Governance Committee may secure the assistance of an executive search firm, if necessary, for this purpose.

The process includes monitoring the qualifications of the directors and the grounds for disqualification whether permanent or temporary.

### **Qualifications of a Candidate as a Director**

- Holder of at least one (1) share of stock of KPMI;
- At least a college graduate or holder of equivalent academic degree;
- At least twenty-one (21) years old;
- Membership in good standing in relevant industry, business or professional organizations;
- Practical understanding of the business of KPMI and sufficient experience in managing the business to substitute for such formal education;
- Proven to possess integrity and probity,
- Assiduous; and
- Such other qualifications as the Nominations Committee may reasonably require based on the nature and requirements of the position at stake.

### **Grounds for Disqualification of a Director:**

#### Permanent Disqualification:

- Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that:

(a) involves the purchase or sale of securities, as defined in the Securities Regulation Code;

(b) 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

(c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;

- Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) or any court or administrative body of competent jurisdiction from:

(a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;

(b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company;

(c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities;

- The disqualification will also apply if:

(a) such person is the subject of an order of the SEC, BSP 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

SEC or BSP, or under any rule or regulation issued by the Commission or BSP;

(b) such person has otherwise been restrained to engage in any activity involving securities and banking; or

(c) such person is 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;

- 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;
- Any person who has been adjudged by final judgment or order of the SEC, BSP, 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, rule, regulation or order administered by the SEC or BSP;
- Any person judicially declared as insolvent;
- 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 previously;
- Conviction by final judgment of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and



- Other grounds as the SEC may provide pursuant to the Revised Corporation Code of the Philippines, Securities Regulation Code and other related laws.

Temporary Disqualifications:

- Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing rules and regulations. The disqualification will be in effect for as long as the refusal persists.
- Absence in more than fifty percent (50%) 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 will apply for purposes of the succeeding election;
- Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification will be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- If the beneficial equity ownership of an independent director in KPMI or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and
- If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

A temporary disqualified director will, within sixty (60) business days from such a disqualification, take the appropriate action to remedy or correct the disqualification. If he fails, or refuses to do so for unjustified reason, the disqualification will become permanent.

Compensation Functions:

This function will establish a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with KPMI's culture and strategy as well as the business environment in which it operates.

The Compensation functions are as follows:

- i. 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 KPMI's culture, strategy and control environment;
- ii. Designate amount of remuneration, which will be in a sufficient level to attract and retain directors and officers who are needed to run KPMI successfully;
- iii. 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;
- iv. Disallow any director ensuing to decide his or her own remuneration;
- v. Provide in KPMI's annual reports, information and proxy statements a clear, concise and understandable disclosure of

compensation of its executive officers for the previous fiscal year and the year;

vi. 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, and

vii. In the absence of such Personnel Handbook, cause the development of such, covering the same parameters of governance stated above.

3.3.2 All established committees will be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters will provide the standards for evaluating the performance of the Committees.

#### 3.4 FOSTERING COMMITMENT

*To show full commitment to the Company, the directors should devote time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.*

3.4.1 The directors will attend and actively participate in all meetings of the Board, Committees, and Shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the SEC, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director will review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

The absence of a director in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency is a

ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

- 3.4.2 The NEDs of the Board will concurrently serve as directors to a maximum of ten (10) public companies and/or registered issuers to ensure that they have sufficient time to fully prepare for meetings, challenge Management's proposals/views, and oversee the long-term strategy of KPMI. However, the maximum concurrent directorships shall be five (5) public companies if the director also sits in at least three (3) publicly listed companies.
- 3.4.3 A director will notify the Board where he is an incumbent director before accepting a directorship in another company.

### 3.5 REINFORCING BOARD INDEPENDENCE

*The Board should endeavor to exercise an objective and independent judgment on all corporate affairs.*

#### 3.5.1 Independent Directors

The Board should be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to carry out proper checks and balances.

The Board will have at least two (2) independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher.

- 3.5.2 The Board will ensure that its independent directors possess the necessary qualifications and none of the disqualifications for an independent director to hold the position.

An Independent Director refers to a person who, ideally:

- a. Is not, or has not been a senior officer or employee of KPMI unless there has been a change in the controlling ownership of KPMI;
- b. Is not, and has not been in the two (2) years immediately preceding the election, a director of KPMI; a director, officer, employee of KPMI's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of KPMI's substantial shareholders and its related companies;
- c. Has not been appointed in KPMI, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within two (2) years immediately preceding his election;
- d. Is not an owner of more than two percent (2%) of the outstanding shares of KPMI, its subsidiaries, associates, affiliates or related companies;
- e. Is not a relative of a director, officer, or substantial shareholder of KPMI, or any of its related companies, or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;
- f. Is not acting as a nominee or representative of any director of KPMI or any of its related companies;
- g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer;
- h. Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of

KPMI, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the two (2) years immediately preceding the date of his election;

- i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholder, in any transaction with KPMI or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment within the two (2) years immediately preceding the date of his election;
- j. Is not affiliated with any non-profit organization that receives significant funding from KPMI or any of its related companies or substantial shareholders; and
- k. Is not employed as an executive officer of another company where any of KPMI's executives serve as directors.

Related companies, as used in this section, refer to (a) holding/parent company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent company.

### 3.5.3 Term Limit of an Independent Director

The Board's independent directors will serve for a maximum cumulative term of nine (9) years. After which, the independent director will be perpetually barred from reelection as such in KPMI, but may continue to qualify for nomination and election as a non-independent director. In the instance that KPMI wants to retain an independent director who has served for nine (9) years, the Board will provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting. Reckoning of the cumulative nine-year term is from 2012.

### 3.5.4 President

The roles and responsibilities of the President include, among others, the following:

- i. Determine KPMI's strategic direction and formulates and implement its strategic plan on the direction of the business;
- ii. Communicate and implement KPMI's vision, mission, values and overall strategy and promote any organization or stakeholder change in accordance to the same;
- iii. Oversee the operations of KPMI and manage human and financial resources in accordance with the strategic plan;
- iv. Must have a good working knowledge of KPMI's industry and market and keep up-to-date with its core business purpose;
- v. Direct, evaluate and guide the work of the key officers of KPMI;
- vi. Manage KPMI's resources prudently and ensure a proper balance of the same;
- vii. Provide the Board with timely information and interface between the Board and the employees;
- viii. Build the corporate culture and motivate the employees of KPMI; and
- ix. Serve as the link between internal operations and external stakeholders.

### 3.5.5 Lead Independent Director

The Board will designate a lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and President are held by one (1) person.

The functions of the lead director include, among others, the following:

- a. Serves as an intermediary between the Chairman and the other directors when necessary;
- b. Convenes and chairs meetings of the non-executive directors; and
- c. Contributes to the performance evaluation of the Chairman, as required.

#### 3.5.6 Material Interest

A director with a material interest in any transaction affecting KPMI will fully disclose his adverse interest, abstain from taking part in the deliberations, and recuse from voting on the approval of the transaction to ensure that he has no influence over the outcome of the deliberations.

- 3.5.7 The NEDs will have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive director present to ensure that proper checks and balances are in place within KPMI. The meetings will be chaired by the Lead Independent Director, if applicable.

### 3.6 ASSESSING BOARD PERFORMANCE

*The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies*

- 3.6.1 The Board will conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees.
- 3.6.2 The Board will have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the



individual directors, committees and such system will allow for a feedback mechanism from the shareholders.

### **3.7 STRENGTHENING BOARD ETHICS**

*Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.*

- 3.7.1 The Board will adopt a Code of Business Conduct and Ethics, which will provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of its members. The Code will be properly disseminated to the Board, senior management and employees. It will also be disclosed and made available to the public through KPMI's website.
- 3.7.2 The Board will ensure the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.

## **ARTICLE 4: DISCLOSURE AND TRANSPARENCY**

### **4.1 ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

*The Company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.*

- 4.1.1 The Board will establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of KPMI's financial condition, results and business operations.
- 4.1.2 KPMI will have a policy requiring all directors and officers to disclose/report to KPMI any dealings in KPMI's shares within five (5) business days.

- 4.1.3 The Board will fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.
- 4.1.4 KPMI will provide a clear disclosure of its policies and procedure for setting Board and executive remuneration, as well as the level and mix of the same.
- 4.1.5 KPMI will disclose its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions.
- 4.1.6 KPMI will make a full, fair, accurate and timely disclosure to the public of every material fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree company will appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.
- 4.1.7 The KPMI's corporate governance policies, programs and procedures will be contained in its Manual on Corporate Governance, which will be submitted to the Commission and posted on KPMI's website.

## 4.2 STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY

*The Company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.*

- 4.2.1 The AC will have a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal, and fees of the external auditor will be recommended by the AC, approved by the Board and ratified by the shareholders. For removal or change in the external auditor, the reasons therefor will be disclosed to the

Commission and the public through KPMI's website and other required disclosures.

- 4.2.2 The AC Charter will include the AC's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter will also contain the AC's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.
- 4.2.3 KPMI will disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The AC will be alerted for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

#### **4.3 INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING**

*The Company should ensure that the material and reportable non-financial and sustainability issues are disclosed.*

- 4.3.1 The Board will have a clear and focused policy on the disclosure of non-financial information, including KPMI's strategic and operational objectives, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business which underpin sustainability. The Company will adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.

#### **4.4 PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

*The Company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This*

*channel is crucial for informed decision-making by investors, stakeholders and other interested users.*

- 4.4.1 KPMI will have a website to ensure a comprehensive, cost-efficient, transparent and timely manner of disseminating relevant information to the public. Thus, KPMI's website shall contain, among others, this Manual, the Annual Corporate Governance Report, Board Charter, Committee Charters, and KPMI's Code of Business Conduct and Ethics.

## **ARTICLE 5: INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT FRAMEWORK**

### **5.1 STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

*To ensure the integrity, transparency and proper governance in the conduct of its affairs, the Company should have a strong and effective internal control system and enterprise risk management framework.*

- 5.1.1 KPMI will have an adequate and effective internal control system and an Enterprise Risk Management (ERM) framework in the conduct of its business, such as identification, sourcing, measurement, evaluation, mitigation and monitoring of risk.
- 5.1.2 KPMI will have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve KPMI's operations.

A separate internal audit function is essential to monitor and guide the implementation of KPMI's policies. It helps KPMI accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of KPMI's governance, risk management and control functions. The following are the functions of the internal audit, among others:

- a. Provide an independent risk-based assurance service to the Board, AC, and Management, focusing on reviewing the effectiveness of

the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;

- b. Perform regular and special audit as contained in the annual audit plan and/or based on KPMI's risk assessment;
- c. Perform consulting and advisory services related to governance and control as appropriate for the organization;
- d. Perform compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
- e. Review, audit and assess the efficiency and effectiveness of the internal control system of all areas of KPMI;
- f. Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- g. Evaluate specific operations at the request of the Board or Management, as appropriate; and
- h. Monitor and evaluate governance processes.

## **ARTICLE 6: CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS**

### **6.1 PROMOTING SHAREHOLDER RIGHTS**

*The Company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.*

The Board will ensure that basic shareholder rights are disclosed in the Manual on Corporate Governance.

It is the responsibility of the Board to adopt a policy informing the shareholders of all their rights. Shareholders are encouraged to exercise their rights by providing clear-cut processes and procedures for them to follow.

The Board will respect the rights of the stockholders as provided for in the Revised Corporation Code.

- a. Right to vote on all matters that require their consent or approval;
  - i. Shareholders will have the right to elect, remove, and replace directors and vote on certain corporate acts in accordance with the Revised Corporation Code.
  - ii. Cumulative voting will be used in the election of directors.
  - iii. A director will be removed without cause if it will deny minority shareholders representation in the Board.
- b. Pre-emptive right to all stock issuances of the Corporation;
- c. Right to inspect corporate books and records;

All shareholders will be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Revised Corporation Code and will be furnished with annual reports, including financial statements, without cost or restrictions.

- d. Right to information;
  - i. The Shareholders will be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of KPMI's shares, dealings with KPMI, relationships among directors and key officers, and the aggregate compensation of directors and officers.

- ii. The minority shareholders will be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.
  - iii. The minority shareholders will 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 will include such information and, if not included, then the minority shareholders will be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes".
- e. Right to dividends;
- i. Shareholders will have the right to receive dividends subject to the discretion of the Board.
  - ii. Dividends will be declared and paid out of the unrestricted retained earnings which will be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine in accordance with the law and applicable rules and regulations.
  - iii. KPMI will be compelled to declare dividends when its retained earnings will be 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 KPMI 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 KPMI, such as when there is a need for special reserve for probable contingencies.

- f. Appraisal right;
- i. The shareholders will have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 81 of the Revised Corporation Code of the Philippines, under any of the following circumstances:
- In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
  - 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
  - In case of merger or consolidation.
- ii. It will be the duty of the Board to promote shareholder rights, remove impediments to the exercise of shareholders' rights and allow possibilities to seek redress for violation of their rights. They will encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They will be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The Board will pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.
- g. Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting;



This is subject to limits and ownership requirement prescribed by the Board. However, to prevent the abuse of this right, KPMI may require that the proposal be made by the shareholders holding a specified percentage of shares or voting rights. On the other hand, to ensure that minority shareholders are not effectively prevented from exercising this right, the degree of ownership concentration is considered in determining the threshold.

- h. Right to nominate candidates to the Board of Directors subject to guidelines prescribed by the Board and the Corporate Governance and Nomination Committee;
- i. Right related to the nomination process;

All shareholders must be given the opportunity to nominate candidates to the Board of Directors in accordance with the existing laws. The procedures of the nomination process are expected to be discussed clearly by the Board. KPMI is encouraged to fully and promptly disclose all information regarding the experience and background of the candidates to enable the shareholders to study and conduct their own background check as to the candidates' qualification and credibility.

- j. Right related to the voting procedures that will govern the Annual and Special Stockholders' Meetings.

Shareholders are also encouraged to participate when given sufficient information prior to voting on fundamental corporate changes such as:

- amendments to the Articles of Incorporation and By-Laws of KPMI;
  - the authorization on the increase in authorized capital stock;
- and
- extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of KPMI.

In addition, the disclosure and clear explanation of the voting procedures, as well as removal of excessive or unnecessary costs and other administrative impediments, allow for the effective exercise of the shareholders' voting rights. Poll voting is highly encouraged as opposed to the show of hands. Proxy voting is also a good practice, including the electronic distribution of proxy materials.

- 6.2 The Board will encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 21 days before the meeting.

The information in the Notice include, among others, the date, location, meeting agenda and its rationale and explanation, and details of issues to be deliberated on and approved or ratified at the meeting.

- 6.3 The Board will encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting will be available on KPMI's website within five (5) business days from the end of the meeting.

- 6.4 The Corporate Secretary and the Corporate Information Officer are always present at every shareholders' meeting to ensure the engagement with its shareholders.

- 6.5 The Board will make available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.

- 6.6 The Board will establish an Investor Relations Office (IRO) or Customer Relations Office (CRO) to ensure constant engagement with its shareholders. The IRO or CRO will be present at every shareholders' meeting. KPMI has a Corporate Information Officer who also acts as the Investors Relations Officer.

## ARTICLE 7: DUTIES TO STAKEHOLDERS

### 7.1 RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS

*The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.*

- 7.1.1 The Board will identify KPMI's various stakeholders and promote cooperation between them and KPMI in creating wealth, growth and sustainability.
- 7.1.2 The Board will establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.
- 7.1.3 The Board will adopt a transparent framework and process that allow stakeholders to communicate with KPMI and to obtain redress for the violation of their rights.

### 7.2 ENCOURAGING EMPLOYEES' PARTICIPATION

*A mechanism for employee participation should be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.*

- 7.2.1 The Board will establish policies, programs and procedures that encourage employees to actively participate in the realization of KPMI's goals and in its governance.

The establishment of policies and programs covering, among others, the following: (1) health, safety and welfare; (2) training and development; and (3) reward/compensation for employees, encourages employees to perform better and motivates them to take a more dynamic role in KPMI.

7.2.2 The Board will set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Business Conduct and Ethics. Further, the Board will disseminate the policy and program to employees across the organization through trainings to embed them in KPMI's culture.

7.2.3 The Board will establish a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board will be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

### **7.3 ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY**

*The Company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.*

7.3.1 KPMI will recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows KPMI to grow its business, while contributing to the advancement of the society where it operates.

## **ARTICLE 8: COMMITMENT TO GOOD CORPORATE GOVERNANCE**

KPMI will strictly implement its corporate governance rules in accordance with this Manual, which will be used as reference by the members of the Board and Management.

To ensure adherence to this Manual, KPMI establishes a compliance system as follows:

## **8.1 COMMUNICATION PROCESS**

- 8.1.1 This Manual will be available for inspection by any stockholder of KPMI at reasonable hours on business days.
- 8.1.2 All directors, executives and management staff are task to ensure the thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.
- 8.1.3 An adequate number of printed copies of this Manual must be reproduced under the supervision of the Corporate Information Officer, with a minimum of at least one (1) hard copy of the Manual.

## **8.2 MONITORING AND ASSESSMENT**

- 8.2.1 Each Committee will report regularly to the Board of Directors.
- 8.2.2 The Compliance Officer will establish an evaluation system to determine and measure compliance with this Manual. Any violation thereof will subject the responsible officer or employee to the penalty provided under Article 9 of this Manual.
- 8.2.3 The establishment of such evaluation system, including the features thereof, will be disclosed in KPMI's annual report (SEC Form 17-A) or in such form of report that is applicable to KPMI. The adoption of such performance evaluation system must be covered by a Board approval.
- 8.2.4 This Manual will be subject to annual review, unless the same frequency is amended by the Board.
- 8.2.5 All business processes and practices being performed within any department or business unit of KPMI that are not consistent with any portion of this Manual will be revoked unless upgraded to the compliant extent.

## **ARTICLE 9: PENALTIES FOR NON-COMPLIANCE WITH THE MANUAL**

To strictly observe and implement the provisions of this manual, the following penalties will be imposed, after notice and hearing, on KPMI's directors, officers, staff, subsidiaries and affiliates and their respective directors, officers and staff in case of violation of any of the provision of this Manual:

- 9.1 In case of first violation, the subject person will be reprimanded.
- 9.2 Suspension from office will be imposed in case of second violation. The duration of the suspension will depend on the gravity of the violation.
- 9.3 For third violation, the maximum penalty of removal from office will be imposed. The commission of a third violation of this Manual by any member of the Board of the Corporation or its subsidiaries and affiliates will be a sufficient cause for removal from directorship.
- 9.4 The Compliance Officer will be responsible for determining violation/s through notice and hearing and will recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.

#### **ARTICLE 10: EFFECTIVE DATE**

This New Manual on Corporate Governance is effective upon its approval by KPMI's Board of Directors on 30 September 2020.

**Signed by:**

**CHOR HOW JAT**  
Chairman of the Board

  
**STEFAN TONG WAI MUN**  
Compliance Officer