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OBJECTIVE

The Corporate Governance Manual was developed to guide the company in enhancing shareholders' value as it competes in a continually evolving business environment while reflecting sound business practice and applying the principles of good corporate governance in a manner that also takes into account its particular circumstances.

The Manual reflects the following key internal control features necessary for good corporate governance:

1. The Board of Directors ensures that the company is appropriately and effectively managed and controlled. It is primarily responsible for the governance of the company.
2. Management actively manages and operates the company in a sound and prudent manner under the direction of the Board.
3. Organizational and procedural controls are supported by an effective management information system and risk management reporting system.
4. Independent audit mechanisms are in place for monitoring the adequacy and effectiveness of the Corporation's governance, operations, information systems, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, security of assets and compliance with laws, rules, regulations and contracts.

The Board and management must exercise sound judgment in reviewing and directing how the company implements the requirements of the Governance Code through the aforementioned control features.


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DISTRIBUTION AND CUSTODIANSHIP

The Manual is a proprietary record of the Company and is made available to its directors, officers, employees and shareholders.

REVISIONS

The Compliance Officer and Internal Audit Manager are jointly responsible for implementing revisions to this Manual subject to approval of the Board of Directors.

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	COMPLIANCE SYSTEM	2	*07.29.03
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I. Compliance Officer

- A. To insure adherence to the corporate principles and best practices reflected herein, the Chairman of the Board shall designate a Compliance Officer who shall hold the position of a Vice President or its equivalent. The Compliance Officer reports directly to the Chairman of the Board and he shall have direct access to the Board, through the Board Audit Committee, without interference from Management.
- B. The Compliance Officer performs the following duties:
- Monitors compliance with the provisions and requirements of this Manual.
 - Determines violations of the Manual and recommend penalties for review and approval by the Board
 - Represent Petron before the Securities and Exchange Commission (the “Commission”) upon summons on similar matters that need to be clarified by the same.
 - Identify and monitor compliance risks.
- C. The Chief Information Officer immediately discloses the appointment of the Compliance Officer to the Securities and Exchange Commission on SEC Form 17-C. All correspondences relative to the Compliance Officer’s functions are addressed to said Officer.

II. Board of Directors

Compliance with the principles of good corporate governance starts with the Board of Directors. The Board is responsible for overseeing management of the Corporation and fostering its long-term success. The Board works for the Corporation’s sustained competitiveness in a manner consistent with its fiduciary responsibilities, which it exercises in the best interests of the Corporation and its shareholders. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

The Company has a process of selection to ensure a mix of competent Directors as well as qualified CEO and senior officers.

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II. Board of Directors (cont'd)

A. General Responsibility


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

B. Specific Duties and Functions of the Board

To insure a high standard of corporate governance and the application of best practices for the Corporation and its stockholders, the Board:

1. Determines the Corporation's vision and mission and strategies to carry out its objectives. The Board establishes the means to attain the corporation's vision and mission, strategic objectives, policies and procedures that guide and direct the activities of the company and the mechanism for monitoring management's performance;
2. Ensures that the Corporation complies with all relevant laws and regulations and identifies and adopts best corporate governance practices. A code of conduct is communicated for compliance by employees, officers, management and the Board; tasks management to adopt a process to validate compliance;
3. Identifies the Corporation's stakeholders and formulates a clear policy on communicating or relating with them through an effective investor relations program;
4. Adopts a system of internal checks and balances and conducts a regular review of such system;
5. Identifies key risk areas and key performance indicators and monitors these indicators with due diligence. There are procedures for the Board to review the risk management strategies and assess whether they are working effectively;

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II. Board of Directors (cont'd)


6. Properly discharges Board functions by meeting regularly. Independent views during Board meetings are given due consideration and all such meetings are duly recorded;
7. Exercises Board authority within the limits prescribed in the Articles of Incorporation, By-Laws and in applicable laws, rules and regulations;
8. Has guidelines for its Directors on the number of memberships in other corporate Boards;
9. Establishes mechanisms to monitor the performance of the Board and individual Board members; and
10. Adopts a process to determine whether a Director (1) conducts fair business transactions, (2) devotes necessary time and attention to discharge his duties, (3) act judiciously, (4) exercises independent judgment, (5) has working legal knowledge affecting the company, (6) observes confidentiality and ensures soundness, effectiveness and adequacy of company's control environment.

C. Duties and Responsibilities of a Director

A Director shall have the following duties and responsibilities:

1. To conduct fair business transactions with the Corporation, fully disclose to the Board any interest he may have in any matter or transaction to be acted upon by the Board and recuse himself from any decision by the Board with respect thereto and, in general, ensure that personal interest does not cause a bias against the interest of the Corporation or does not prejudice Board decisions;
2. To devote the time and attention necessary to properly discharge his duties and responsibilities;

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II. Board of Directors (cont'd)

1. To act judiciously;
2. To exercise independent judgment;
3. To have a working knowledge of the statutory and regulatory requirements affecting the Corporation, including the contents of its Articles of Incorporation and By-Laws, the requirements of the Commission, and where applicable, the requirements of other regulatory agencies.
4. To observe confidentiality with respect to all matters coming before the Board;
5. To ensure the continuing soundness, effectiveness and adequacy of the Corporation's control environment.

III. Board Committees


Pursuant to the Corporation's By-Laws, the Board of Directors constitutes the following Committees in accordance with the principles of good corporate governance:

A. Nomination Committee

The Nomination Committee is composed of six (6) Directors with an independent Director serving as the Chairman and with the Corporate Secretary acting as its secretary.

1. Duties and Responsibilities

The Nomination Committee pre-screens and shortlists candidates proposed to become members of the Board of Directors. It shall ensure that Director-candidates have the following qualifications, and none of the following disqualifications:

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III. Board Committees (cont'd)

2. Qualifications

To qualify for nomination and election as a Director an individual must:

- a. Hold at least one (1) share of stock of the Corporation.
- b. Be a college graduate or have sufficient experience in managing a business.
- c. Be at least twenty one (21) years old
- d. Possesses integrity


3. Disqualifications

An individual is disqualified from consideration for election to the Board if he:

- a. Is engaged in any business, that competes with or is antagonistic to that of the Corporation.

A person is deemed to engage in a competing or antagonistic business if:


- 1) The person is an officer, manager or controlling person of, or the owner (either of record or beneficially) of ten percent (10%) or more of any outstanding class of shares, or similar ownership interest, of any Corporation, or other form of business entity (other than one in which Petron owns at least thirty percent (30%) of the total issued and outstanding capital stock or equivalent ownership interest) engaged in a business that the Board determines to be competitive or antagonistic to that of the Corporation;

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III. Board Committees (cont'd)

- 2) The person is an officer, manager or controlling person of, or the owner (either of record or beneficially) of ten percent (10%) or more of any outstanding class of shares, or similar ownership interest, of any other Corporation or other business entity engaged in any line of business of the Corporation, if the Board determines that the laws against combinations in restraint of trade shall be violated by such person's membership in the Board; or
 - 3) The person is the nominee of any person described in (a) and (b) above as determined by the Board, in the exercise of its judgment, in good faith.
- c. Has been convicted by final judgment of a competent judicial or administrative body of an offense involving moral turpitude and/or fraud or has been enjoined or restrained by the Commission or other competent judicial or administrative body for violation of the securities, commodities, and other related laws;
 - d. Has been determined by the Commission or a court or administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;
 - e. Has been declared insolvent by a competent Court;
 - f. Has been convicted by final judgment of a competent Court or administrative body 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 proposed election or appointment;

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III. Board Committees (cont'd)

- g. Has been found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs.

4. (a) **Limitations on Membership on Other Boards**


The Board determines the maximum number of other Boards on which the Chief Executive Officer and other Executive Directors may serve. Non-Executive Directors who serve as full-time executives in other Corporations should not serve on a number of Boards greater than the limit set for the Executive Directors. In any case, the capacity of Directors to serve with diligence should not be compromised by their service on the boards of other companies.

(b) **Nomination Committee**

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

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

The optimum number relates to the capacity of a Director to perform his duties diligently in general.

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III. Board Committees (cont'd)

B. Compensation Committee

The Compensation Committee is composed of *five members of the Board of Directors, *two of whom are independent Directors. The Chairman and the President of the Corporation are also members but without voting rights. The Chairman of the Board is the Chairman of the Committee.


1. *Duties and Responsibilities*

The Compensation Committee

- a. Considers and approves salary structures and modifications thereto for individuals in the positions of Vice President, or its equivalent, and above.
- b. Considers and approves promotions to positions of Division Head and salary increases to be granted concurrently with such promotions.
- c. Considers and approves other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans.

Members of the Compensation Committee shall not participate in decisions with respect to his or her own remuneration, unless the same shall be applied to all Directors.

The Company has formal and transparent procedures for fixing the remuneration packages of individual directors and of officers. In setting salary structures and other remuneration for officers and Directors, the Committee ensures that salaries and other remuneration are set at levels adequate to attract and retain Directors and officers with the qualifications and experience needed to manage the Corporation successfully.

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III. Board Committees (cont'd)

The Committee ensures that the Corporation's annual reports, information and proxy statements, etc. clearly, concisely and understandably disclose the compensation of its executive officers for the previous fiscal year and the ensuing year.

The Committee has developed 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 interest or shareholdings that may directly or indirectly conflict in their performance of duties once hired.


C. Audit Committee

The Audit Committee is composed of four (4) members of the Board, two (2) of whom are independent Directors. In addition to the herein qualification of a director, the members of the Audit Committee shall have adequate financial and accounting expertise. The Chairman of the Audit Committee shall be an independent Director.

1. *Duties and Responsibilities*

The Audit Committee

- a. Inquires into the effectiveness of internal controls, general adherence to the Corporation's policies and regulations and matters that may significantly affect the Corporation's financial statements by means of reviews with the Controller, Internal Audit Manager and other employees or experts if deemed necessary by the Committee.
- b. Reviews the activities of the Internal Audit Manager and the External Auditor including the direction and effort, scope and coordination of such audit activities and any circumstances that may impair the independence of the external Auditor.

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III. Board Committees (cont'd)

C. Audit Committee (cont'd)

1. *Duties and Responsibilities (cont'd)*

The Audit Committee (cont'd)

- c. Supports the internal and external audit functions and provides high-level follow-up of audit recommendations when such action is needed.
- d. Assures that the Internal Audit Manager and the External Auditor have direct access to the Board of Directors without interference or censorship by Management.
- e. Makes recommendations to the Board of Directors each year with respect to the appointment of the External Auditor to examine the accounts of the Corporation for that year.
- f. Develops a transparent financial management system that ensures the integrity of internal control activities throughout the Company through a step-by-step procedures and policies handbook that is used by the entire organization.
- g. Oversees financial management functions in the areas of credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management.
- h. That the Audit Committee checks all financial reports against its compliance with both the internal financial management and pertinent accounting standards, including regulatory requirements.
- i. Pre-approves all audit plans, scope and frequency before the conduct of external audit.
- j. Interfaces with the Internal Audit Manager and External Auditor.

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	COMPLIANCE SYSTEM Subject	2	*07.29.03

III. Board Committees (cont'd)

C. Audit Committee (cont'd)

1. *Duties and Responsibilities (cont'd)*

The Audit Committee (cont'd)

Review of Audit Efforts


At least annually, the Audit Committee reviews with the Internal Audit Manager and the External Auditor the general scope and direction of their respective audit efforts and major findings and recommendations, with particular attention to areas where the Committee, the Internal Audit Manager or External Auditor believe special emphasis is desirable or necessary.

Review of Controller Organizations & Activities

At least twice each year, the Audit Committee reviews with the Controller, his/her organization and major activities related to financial safeguards, internal control matters and the financial reporting process. This review should include discussions of, and identification of concerns about, financial controls, such as deficiencies in internal control systems, including controls over construction work, inventories, acquisitions, investment and controls over computer systems, plans for procedures to improve such systems and eliminate any deficiencies.

Reporting Relations

The Controller, the Internal Audit Manager and the External Auditor are each authorized to report directly to the Audit Committee without interference or censorship by Management as to any and all matters which they believe fall within the jurisdiction or concern of the Committee, including significant accounting, reporting and tax issues and irregularities, control deficiencies, and Management plans for corrective action.

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III. Board Committees (cont'd)

C. Audit Committee (cont'd)

1. *Duties and Responsibilities (cont'd)*

The Audit Committee (cont'd)


The Audit Committee reports to the Board on a current, regular basis, and whenever directed by the Board, concerning its activities and any recommendations it considers necessary or appropriate.

Major Irregularities

The Controller, the Internal Audit Manager, and the External Auditor will, after consultation with the General Counsel, inform the Audit Committee promptly of instances which suggest the possibility of significant violations of applicable laws or regulations, falsification of records or reports, major violations of Petron's policies, and any other major irregularities, including fraud, theft, and matters relating to conflicts of interest.

Quorum

Three of the four members of the Committee constitute a quorum for the transaction of the Committee's business and the vote of at least three of the four members shall be required for any action of the Committee.

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III. Board Committees (cont'd)


D. Corporate Secretary

The Corporate Secretary must be a Filipino citizen.

1. Duties and Responsibilities

The Secretary:

- a. Keeps the minutes of all meetings of the stockholders and Board of Directors in books provided for such purpose.
- b. Gives notice of all meetings of stockholders and Directors and all other notices required by law or by the Corporation's By-Laws and any such notice that may be given as directed by the Chairman of the Board or by the President or by the directors or stockholders, upon whose request the special meeting is called as provided in the Corporation's By-Laws.
- c. Acts as custodian of the records and of the seal of the Corporation
- d. Keeps a register of the post office address of each stockholder and makes all necessary changes in such register, retaining and filing his authority for all such entries.
- e. Sees that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed.
- f. Unless otherwise determined by the Board, has custody of the original stock books, transfer books and stock ledgers and acts as transfer agent in respect of the stock certificates and securities of the Corporation.
- g. In general, performs duties incident to the Office of the Corporate Secretary and such other duties as may from time to time be assigned by the Board of Directors.

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III. Board Committees (cont'd)

E. External Auditor

1. Upon recommendation of the Audit Committee, the Board of Directors appoints the External Auditor and the stockholders shall ratify the appointment.
2. The reasons for resignation, dismissal or cessation from service of an External Auditor and the date thereof are reported in the Corporation's Annual Report.
3. The External Auditor is not to provide the services of an internal auditor client. The Corporation must ensure that other non-audit work does not conflict with the functions of the External Auditor.
4. The External Auditor or the engagement partner must be changed every five (5) years or earlier.
5. If the 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, his views must be presented in said reports.

F. Internal Audit Department


1. The Corporation has in place an independent internal audit function performed by the Internal Audit Department.
2. The Internal Audit Department reports functionally to the Audit Committee and administratively to the Vice President for Corporate Planning.
3. The Internal Audit Department provides senior management, Audit Committee and the Board of Directors with reasonable assurance that the Corporation's key organizational and procedural controls are effective, appropriate and being complied with.

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	COMPLIANCE SYSTEM	2	*07.29.03
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III. Board Committees (cont'd)


F. Internal Audit Department (cont'd)

4. The minimum internal control mechanism for management's operational responsibility shall center on the President, being ultimately accountable for Corporation's organizational and procedural controls.

 CORPORATE GOVERNANCE MANUAL	Section COMMUNICATION AND DISSEMINATION	Section No. 3	Effective *07.29.03
	Subject	Subject No.	


GUIDELINES

1. The Corporate Governance Manual must be made available at Investors' Relations for inspection by any stockholder of the Corporation at reasonable hours on business days.
2. The Manual must be thoroughly disseminated to all employees through the Petronet.
3. Directors, senior and line management are to ensure compliance by all Petron personnel with the corporate governance requirements of the corporation's Articles, By-laws and policies and applicable laws and regulations, all as summarized in this Manual.
4. The Law, Internal Audit and Human Resource Departments are jointly responsible for conducting orientation programs for officers and employees to explain the provisions of the Manual.
5. The Compliance Officer is responsible for orienting Directors on the requirements of the Corporate Governance Code of the Philippines, unless the Director has previously attended a similar orientation program. *The Corporation provides the Directors with reading and study materials on corporate governance. The company will support further initiatives toward the development of its Directors in this area.
6. The Corporate Governance Manual must form part of every orientation conducted by HRMD for new employees.

 CORPORATE GOVERNANCE MANUAL	Section	Section No.	Effective
	REPORTORIAL AND DISCLOSURE SYSTEM	4	01.01.03
	Subject	Subject No.	

GUIDELINES (SRC)

1. The responsible Committee or officer, as identified herein, prepares reports or disclosures to the Commission required by applicable law or regulation and submits them through the Corporation's Compliance Officer.
2. The Corporation commits to fully and timely disclose all material information concerning the company's operations, i.e., anything that could potentially affect share price. Such information includes earnings results, acquisition or disposal of major assets, Board changes, significant related party transactions (excluding the purchase of crude oil in the normal course of business), shareholdings of directors and changes in ownership exceeding 5% of the corporation's outstanding share capital.
3. Other information that shall be disclosed includes remuneration (including stock options) of all directors and senior management, corporate strategy and off balance sheet transactions.
4. All disclosed information must be released through the approved stock exchange procedure for company announcements as well as through the annual report.

	Section	Section No.	Effective
	SHAREHOLDERS' BENEFIT	5	01.01.03
	Subject	Subject No.	

GUIDELINES

The Board of Directors is committed to respect the following rights of the corporation's stockholders as granted by applicable law.

I. Rights of All Shareholders

1. Voting Right

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

2. As provided in the Corporation Code and in the Corporation's By-Laws, cumulative voting is used in the election of directors.


3. A director cannot be removed without cause and only with the affirmative vote of 70 % of total issued and outstanding shares.

4. Pre-emptive Right

Pursuant to the Corporation Code all stockholders shall have pre-emptive rights, unless the same would be denied in the Articles of Incorporation. They shall have the right to subscribe to the capital stock of the Corporation. The specific rights and powers of shareholders with respect to the particular shares they hold shall be protected so long as they are not in conflict with the Corporation Code.

5. Power of Inspection

The records of all business transactions of the Corporation and the minutes of any meeting of the shareholders or Board shall be open to the inspection of any stockholder at reasonable hours on business days and the stockholder may demand, in writing, a copy of the excerpts from said records or minutes, at his expense.

 CORPORATE GOVERNANCE MANUAL	Section	Section No.	Effective
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I. Rights of All Shareholders (cont'd)

5. Power of Inspection (cont'd)


Within ten (10) days from receipt of a written request of any stockholder, the Corporation shall furnish him its most recent financial statement, which shall include a balance sheet as of the end of the taxable year and a profit or loss statement for said taxable year, showing in a reasonable detail its assets and liabilities and the result of its operations.

At the regular meeting of stockholders, the Board of Directors shall present to the stockholders a financial report of the operations of the Corporation for the preceding year, which shall include financial statements, duly signed and certified by an independent public accountant.

All shareholders shall be furnished with annual reports, including financial statements, without cost or restrictions.

6. Right to Information

All stockholders are to be provided, upon request, with periodic reports, which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among Directors and key officers, and the aggregate compensation of Directors and officers.

	Section	Section No.	Effective
	SHAREHOLDERS' BENEFIT Subject	5 Subject No.	01.01.03

I. Rights of All Shareholders (cont'd)


7. Right to Dividends

- a. Stockholders have the right to receive dividends subject to the discretion of the Board.
- b. The Corporation shall declare dividends when its retained earnings exceeds 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

8. Appraisal Right

The stockholders have the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

- a. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence.
- b. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code.
- c. In case of merger or consolidation.

 CORPORATE GOVERNANCE MANUAL	Section	Section No.	Effective
	SHAREHOLDERS' BENEFIT	5	01.01.03
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I. Rights of All Shareholders (cont'd)

9. General

Directors are responsible for promoting shareholders' rights, removing impediments to the exercise of shareholders' rights and facilitating shareholder action to seek redress for violation of their rights. They are to encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They are to do what is necessary to remove excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors are to facilitate the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

II. Rights of Minority Shareholders

1. Minority shareholders may propose agenda items for legitimate business purposes during the stockholders' meeting.
2. Special meetings of the stockholders may be called at the written request of one or more stockholders owning at least twenty per cent (20 %) of the total issued and outstanding capital stock of the Corporation entitled to vote. Such request must state the purpose or purposes of the proposed meeting and should be delivered to and called by the Corporate Secretary at the Corporation's principal office.

	Section	Section No.	Effective
	MONITORING AND ASSESSMENT	6	01.01.03
	Subject	Subject No.	

GUIDELINES (SEC)

1. All Committees of the Board shall report regularly to the Board of Directors.
2. The Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual.
3. The evaluation system, including the features thereof, shall be disclosed in the company's annual report (SEC Form 17-A) or in such form of report that is applicable to the Corporation.
4. The adoption of such performance evaluation system must be approved by the Board.
5. This Manual is subject to regular review.
6. All business processes and practices are to be reviewed to determine if these are consistent with the provisions of this Manual.